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THE FUTURE OF ECONOMIC THEORY.

A POINT on which opinions differ is the capacity of the pure theory of Political Economy for progress. There seems to be a growing impression that, as a mere statement of principles, this science will soon be fairly complete. There remains, indeed, to be added to the list of accepted truths a theory of Distribution; but materials, at least, for such a theory are to be found in recent literature. Explanations of wages and interest that cannot be far from the truth have been offered; and, if it shall soon appear that any of these is demonstrating its correctness, and taking in the science the assured place that the modern theory of Value has already won, there will be a disposition to say that at last the theory of Economics has reached the condition in which, with only minor changes and additions, it is likely to remain.

It is, of course, true that the theories of Value, Wages, Interest, and Profits, constitute, in so far as importance goes, two-thirds of the theoretical science of Economics.

It is over questions of distribution that social classes contend with each other. Is property robbery? Does society need revolutionizing? The answer depends on the question whether, under free competition, wages are the specific product of labor; and this is one of the many points that are to be decided by a theory of Distribution. If, therefore, we are not in error in thinking that scientific thought is now on the right track, in connection with the problems of Distribution, and if there is soon to be a unanimity of view concerning the laws of Wages, Interest, and Profits, then, indeed, it is of importance to know whether any very great theoretical work is still in the future.

On the supposition that some one of the theories of Distribution that are now candidates for acceptance will soon reveal its own correctness, or that some modification of one of these will be adopted, or that out of them all some eclectic theory will be formed that will win assent, will the pure theory of Economics have further and large achievements immediately before it? There seems to be an impression that it will not.

It is with this view that I take issue. The great coming development of economic theory is to take place, as I venture to assert, through the statement and the solution of dynamic problems. Static problems have heretofore had most attention. That which in Ricardo's studies figured as a "natural value" is really a static value. It is a value that would be realized in a market if certain changes that are transforming society were stopped, and if the prices of goods were allowed to reach and keep the rates that a perfectly free competition would then establish. The wages and interest that in such studies would be regarded as normal are, in the same way, static wages and interest. The greater problems of the future concern dynamic values and dynamic wages and interest.

The difference between static problems and dynamic

ones becomes apparent if we divide the science of Political Economy in a natural way. This is a new mode of dividing the science; and it involves the abandoning of the time-honored plan of separating the whole of Political Economy into four parts, treating respectively of Production, Distribution, Exchange, and Consumption. The difficulty with this mode of dividing the science is that it gives parts that are not distinct from each other. Production, indeed, as it is carried on in a social state, is a process that includes both exchange and distribution. Production is the bringing of commodities into existence; and, in any state except the most primitive one, it is accomplished by a division of labor. The producer is personally a specialist, selling an article or a part of an article, and buying what he needs with the proceeds. Only society in its entirety is an all-around creator of goods. This is equivalent to saying that social production is accomplished by means of exchanges. The passing of goods from hand to hand enables all society to make all goods; and the two expressions, "Division of Labor," on the one hand, and "Exchange," on the other, merely describe in two different ways the organized process of creating wealth. It is contrasted with the method of isolated and independent production. Let a thing stay in one man's hands until it is finished and in use, and production is not yet socialized. But let it pass from hand to hand in the making, and it is so. Society in its entirety is the one producer of wealth; and exchange is the socializing element in production. It is a feature of the more comprehensive process.

There is a kind of distribution that merely adjusts the incomes of what may be called industrial groups in their entirety, and does not settle questions of wages and interest. When wheat is high in price, the whole group of wheat-raisers gets a large return. How much of it goes to laborers and how much to the owners or the tenants of

farms is a further question; but high-priced wheat means much money to be apportioned somewhere among them. In like manner dear steel means much money for the whole group of steel-makers. The study of Value is, then, a study of Group Distribution. Yet it is a study of a feature of exchanges, and these are a feature of social production.

In another way is the distributing process identified with production, since, if modern theories are not wrong, the share of wealth that falls to any producing agent tends, under natural law, to equal the amount that he creates. A man's pay tends to equal the value of the product or fraction of a product that can be specifically imputed to him. The whole study of Distribution is, in this light, nothing but a study of Specific Production. It traces the wealth that society as a whole creates backward to the agents that have brought each specific part of it into existence. Production itself is a synthesis, in which countless agents bring each its contribution to the grand total of the world's income. Distribution is merely the undoing of this combining process. It is an analysis, and traces the wealth that has been synthetically created back to its ultimate sources.

All of the process of distribution, then, is included in production. The adjustment of values is group distribution, but it is also a feature of exchange. Exchange is merely the socializing feature of production. We cannot here stop to show how completely entangled with each other are the first three of the four traditional processes that it has been customary to treat in separate parts of the science. It is, however, clearly impossible to account for the fact that a man who wields a pick in excavating ground for a cellar gets \$1.25 a day, without discussing subjects that belong to the theories of Exchange and Distribution; yet at no time would the economist cease to be within the field of Production. He would have to

ascertain how much the man's group produces, and what part he personally contributes to the group's product. Not unfit for use as descriptive terms, but absolutely unfit for use as subjects of distinct division of the science of Political Economy, are the terms Production, Distribution, and Exchange.

Consumption is not an organized process at all. We make things collectively, but we use them each man for himself. We like to eat together, indeed, and to enjoy many things in company; but we do not co-operate in eating, as we do in producing food and other commodities. Consumption is an individualistic operation; and a treatise that limits itself to a distinctively social economy would not treat of it at all. It would assume that consumption is going on, and that production has no other object than that consumption may go on; but it would not include in itself any discussion of the consuming process. Production, on the other hand, in the civilized world must go on in an organized way; and exchange and distribution are involved in the organizing of it. Production includes all of the economic process that is strictly social. Consumption is not a good term to describe any part of such a strictly social economy.

Let us see whether the science can be divided on another plan. There are three distinct kinds of force working together in social economics. If we study them separately, we shall resolve economic science into three divisions, the boundaries of which have been drawn by nature. Man modifies matter by production; and matter modifies man through consumption. These processes do not necessarily require any organization on the part of the men who impart and then receive the impressions. All this could be accomplished by an isolated man or by men living together for protection or the mere pleasures of association, without any system of exchange of products. Let every one make his own goods and consume them, and an economic life of a certain kind is complete.

The distinctive feature of such a life is that it establishes direct relations between the individual man and nature. Every man subdues for himself a part of his material environment; and he gets the direct service that this bit of nature, when thus subdued, can render. There are no disguises thrown over the relation that workers sustain to the earth. Obvious dependence on nature, obvious independence of other men, is the rule of every one's economic life. Out of materials furnished by the earth each producer creates his own income; and there are no problems of distribution connected with it.

Yet in this mode of living, which puts every man face to face with nature, there is room for the action of all of the more fundamental laws of economics. Here is a hunter in a primeval forest converting the flesh of animals into food and their skins into clothing and shelter. He is creating something that can be defined as wealth. It has the essential marks that analysis detects in the wealth that crowds the shops of the modern city. The man uses capital, and includes in his equipment both the fixed and the circulating varieties of it. His consumption has its laws; and the chief of them is the one that calls for variety in the things consumed. He must not make and use too much of one kind of product and too little of another. He must guard against glutting some wants and letting others go unsatisfied, if the wealth that he creates is to do him much good.

There is a distinct set of economic laws, the action of which is not dependent on organization. They are fundamental; and what we have now to note is 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. The first natural division of economic science should present the universal laws of

wealth. It should discuss the more general laws of production and all the laws of consumption.

There is next to be studied a second set of phenomena. They are traceable to a further set of forces; and these originate in relations between man and man. They are made to work wherever persons begin to exchange products. This organizes society in groups, or specific industries. Let some men produce food and others build huts, and let them exchange products with each other, and things happen that are not accounted for by the laws of that general economy in which the direct relations of man to nature are explained. Exchanges involve the determining of values; and these, as we have seen, fix the terms of group distribution.

The organization of society is further extended when, within each group, or specific industry, there are employers paying wages to the men who labor and interest to those who furnish capital. Distribution, in a broad definition of that term, is that which results from organizing the wealth-creating powers. The division of economics that treats of it will first deal with group distribution, which depends on exchanges. It will describe the formation of the groups, account for the terms on which they buy and sell from each other, and show on what the income of each of them depends. It will then deal with that final distribution which takes place within each subgroup, and which fixes the wages, the interest, and the profits that are there received. This is equivalent to showing what becomes of the income that comes to a group as a whole. Laborers get some of it, capitalists get some, and *entrepreneurs* get the remainder. Broadly conceived, and made to include a description of the system of industrial groups, and of their dealings, the science of Distribution embraces the Social Laws of Economics. It tells all that happens in consequence of the one fact that society has organized itself for Production. The term Distribu-

tion cannot be used as the title of a scientific division, if the use of it carries with it the idea that what is treated under this title is not Production and is not Exchange. Distribution is a process that, in its completeness, includes Exchange. It falls itself entirely within Production. It is not best to characterize the second natural division of economic science as the science of Distribution, since the idea of distinctness from Production and Exchange attaches itself, in the public mind, to this term. It is best to describe it as the division that treats of the Social Laws of Economics, as distinct from the general laws. When we know what happens in consequence of the economic actions and reactions that are taking place between man and nature, we have the content of the first division of the science. We need, further, to know what takes place in consequence of relations between man and man; and this will give us the content of the second division.

It is conceivable that production might go on in an organized way, without any change in the character of the operation. Men might conceivably produce, to the end of time, the same kinds of goods; and they might do it by the same processes. Their tools and materials might never change; and they might not alter, either for the better or for the worse, the amount of wealth that their industry would yield. Social production can be thought of as static.

In such a changeless mode of social industry, distribution, with all that it involves, would take place. Groups would exchange products, and each would be dependent on the value of its own goods for the amount of its collective income. The price of agricultural produce would determine the income of farmers, and the price of ore would fix that of miners. The gains of a group as a whole would be divided among the sub-groups composing it, and would then, by a further operation, be parted into wages, interest, and profits.

We saw that what are called natural standards of values, and natural or normal rates of wages, interest, and profits, are, in reality, static rates. They are identical with those which would be realized if a society were perfectly organized, but were free from the disturbances that progress causes. Far more than classical economists were aware of is involved in a thorough-going study of what they called natural values.

Reduce society to a stationary state; let industry go on with entire freedom; make labor and capital absolutely mobile,—as free to move from employment to employment as they are supposed to be in the theoretical world that figures in Ricardo's studies,—and you will have a *régime* of natural values. They are the values about which rates are forever fluctuating in the shops of commercial cities. You will also have a *régime* 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. The terms, "natural" and "normal" and "static," as used in this connection, are synonymous. The division of economic science that presents natural standards of values, wages, and interest, ought consciously to take the shape of a static theory. Such a theory would treat of Distribution as it would go on if there were taking place none of those grand disturbances—changes in the mode of production—that are forever causing market quotations to vary from the natural standards of the classical economists.

A static state is imaginary. All actual societies are dynamic; and those that we have principally to study are highly so. Heroically theoretical is the study that creates, in imagination, a static society. Unceasing changes in the actual world thrust labor and capital, from time to time, out of one occupation and into another. In each industry that is carried on they again and again change the modes of production, and the kinds and the quantities of

the goods produced. Yet this does not invalidate the conclusions of a static theory. Static laws are real laws. 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 operate still in the changing world of reality. We can always see them working in connection with other forces; but we can only imagine them working alone. We study them separately, in order that we may understand one part of what goes on in dynamic societies. To do this, we create in imagination a static society; and it is a heroic but necessary application of the isolating method.

Only by reasons 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 changeful one, but are even the dominant forces of 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.

We have described the boundaries of two of the natural divisions of economic science. The first treats of universal phenomena, and the second of phenomena that result merely from organization, and not from any change or progress in the character of the organization. Starting with those laws of economics which act whether humanity is organized or not, we next study the forces that result from organization, whether it is progressive or not. This latter study gives us a theory of Social Economic Statics.

Finally, it is necessary to study the forces of progress. To influences that would act if society were in a stationary state, we must add those that act only as society is thrown into a condition of movement and disturbance. This will give us a science of Social Economic Dynamics. It will bring the society that figures in our theory into a condition that is like that of the actual world. It will

supply what a static theory openly and intentionally puts out of sight; namely, changes that alter the mode of production, and act on the very structure of society itself. A study of these changes is the content of the third natural division of economic science.

Wants are changing, and the kinds of wealth that are produced must change with them. New mechanical processes are coming into use. Machines supplant hand labor, and efficient machines displace inferior ones. New motive powers are taken into service, and new raw materials are used. Population increases and migrates, taking with it some of the increase of its wealth. Large industries grow up and crowd small ones out of the field. The earth becomes crowded with life and wealth. An adequate study of such changes is impossible unless it is preceded by a study of natural or static standards of value, wages, interest, and profits.

Not any of these changes suppresses the action of static forces, nor do all of them together do so. Not one jot nor one tittle shall fall from the law of natural values, or from that of natural rates of wages, interest, and profits. A different set of forces is acting in connection with the static ones; and real values, wages, are the resultant of the two kinds of force. In advancing to the study of dynamic phenomena, our theory completes itself; and the effect is to make it fully interpret the world of fact. A theoretical dynamic world is exactly like the actual world, if the theory that constructs it is a valid and complete one. It has the elements of disturbance and of friction to which men of business point, as influences that invalidate theoretical conclusions. If the study of it were carried to completion, it would furnish what has heretofore been lacking; namely, a science of economic friction and disturbance.

In so far as method is concerned, a theory of Economic Dynamics must use deduction, as did the theories of the

Ricardian school. It must base itself on the conclusions of Economic Statics, which, as we have seen, are uncompromisingly theoretical. Yet realism is the striking trait of the dynamic theory. It includes in its field of view just the elements that have been needed to make a deductive economic science fully interpret the world of fact, and satisfy practical minds.

In the markets of all parts of the world where competition rules the standards about which prices fluctuate are set by static forces; and the fluctuations are accounted for by dynamic ones. Actual prices are now above the standards, and now below them. A pendulum is now on one side of an imaginary vertical line, and now on the other. The vertical line coincides with the position that it would hold if it were under the influence of static forces only. Its oscillations are due to dynamic forces; and these can be measured if we first know the nature of the static forces, and the position to which, if they were acting alone, they would bring the pendulum. The oscillations of prices about the natural standards can be accounted for only by a similar plan of study. We must have, at the outset, the static standards of price to which the market tends to conform. The same thing is true of natural wages and interest, and of the fluctuations about these standards. It is dynamic causes that produce variations.

This, however, is not the largest effect of dynamic forces. We shall not have learned the most important thing about them when we have accounted for the deviations from natural rates that actual values, wages, and interest show. We shall further see that dynamic forces create new conditions in which static forces must work. In these new conditions natural values cannot continue to be what they were in the former conditions. The price of cotton cloth that is entirely natural, when this fabric is made by hand, is far from being so when it is made by

machinery. The normal price of cotton cloth fell in consequence of the inventions of Watt, Hargreaves, Arkwright, and Crompton. Before these men did their work, the price of the cloth was fluctuating about one natural standard: afterwards it fluctuated about another. The normal level of wages is rising, and that of interest is falling, in consequence of far-reaching dynamic influences. At any one time there is one standard of value, wages, and interest set by static forces; and at that time the temporary fluctuations of actual rates about these standards are due to dynamic causes. At a later time it will be found that the standards themselves have undergone a change; and these grander effects are the most important ones that are attributable to dynamic forces. A theory of mere disturbance and variation is, indeed, included in the science of Economic Dynamics; but the more important thing that is included in it is a theory of progress. The normal wealth of the world will be greater and the natural level of wages will be far higher in the year 2000 than they are to-day, if the greater forces of economic dynamics shall continue to work.

Is it not already clear that this field of investigation is an indefinitely fruitful one? It would become clearer that this is the fact if it were practicable here to describe, in a detailed way, the particular problems that have to be solved in a theory of Social Economic Dynamics. They include every possibility of gain that can come to humanity by economic change. They are essentially new problems, because the prevailing mode of economic study has not heretofore isolated them, brought them clearly into view, and afforded the data for solving them. Not without references to change and progress has been the theory that has formed itself on the old and baffling plan of a fourfold division of the whole science into Production, Distribution, Exchange, and Consumption. Statics and dynamics are blindly commingled in such theories. An

adequate treatment of change and progress is needed; and it must be preceded by a thorough-going treatment of purely static forces. We must get the normal standards of value, wages, and interest, if we are to measure the deviations from them that rates show in the business world. What is far more important is that we should have the natural standards of to-day, compare with them the standards of to-morrow, and measure and account for differences between the two sets. The reduction of progress to a science,—such is the work of a theory of Social Economic Dynamics.

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