MARKET-STATE RELATIONS IN JOHN MAURICE CLARK'S SOCIAL ECONOMICS

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Abstract - As one of the leading institutional economists between the Great Depression and the 1960s in the United States, John Maurice Clark (1884-1963) synthesizes neoclassical economic analysis with the institutionalist framework by developing a new approach to business competition and offered a new understanding of the market-state (economics-politics) relations. What is missing in the current literature on Clark is how he conceives of the market and the role the state plays in governing it. Based on his key publications, the main argument in this essay is that John Maurice Clark puts forward a new vision of business competition – *effective competition* – that needs a specific kind of state to establish and maintain effective competition, essential for reaping the benefits of the free market economy. This new vision attributes a crucial role to law and suggests de-politicization of public policy making with the technocratic decision.

Key Terms - Effective Competition, Business Enterprise, Market, Economics, State, Politics, Law

I. INTRODUCTION

John Maurice Clark (1884-1963) was an influential American institutional economist who synthesized neoclassical economic analysis with the institutionalist framework by developing a new approach to business competition, called the theory of workable competition in 1940 for the first time (Clark: 1940). Later on, he replaced the concept *workable competition* with *effective competition*in 1961 after feeling that the former had static connotations (Clark: 1961).For the purpose of consistency, the latter is used throughout the paper. His contribution has definitely attracted the attention of economists who are mainly interested in the social aspect of his view such as economic responsibility, social ethics or economic concepts, including but not limited to competition and trusts, multiplier (Haase, 2017; Fiorito and Vergnengo, 2009; Shute, 1997; Stanfield, 1981; Rohrlich, 1981; Klebaner, 1962). What is missing in the relevant literature is how Clark conceives of the market and the role the state plays in governing it. In a way, the market-state relations in his view are yet to be investigated.

Based on his key publications, the main argument in this essay is that John Maurice Clark puts forward a new vision of business competition – *effective competition* – that needs a specific kind of state to establish and maintain effective competition, essential for reaping the benefits of the free market economy.This new vision attributes a crucial role to law and suggests de-politicization of public policy making with the technocratic decision. To develop this thesis, the second section summarizes Clark's economic methodology and the theory of effective competition,followed by the role of the state in managing effective competition in the third section. The fourth and final section critically evaluates and summarizes the findings.

II. JOHN MAURICE CLARK'S METHODOLOGY AND THE THEORY OF EFFECTIVE COMPETITION

Clarkdoes not confine the study of economics within the borders of the market(Clark: 1960, p. 9; Clark: 1955a; Clark: 1969, p. xii)Economists should look beyond the market to understand the root causes of economic problems and put forward solutions to them accordingly.Clark's empirical and system-oriented method has an impact on his vision of capitalism in that he has a realistic view of the capitalist market economy.(Clark: 1969, p. 31) According to him, the mechanical revolution is the main factor behind cartels and other forms of 'imperfect competition'. (Clark: 1969, p. 488) "To sum up, in a modern economy it has become impossible to trust an 'invisible hand' to turn crude self-interest into an efficient engine for meeting every social need." (Clark: 1955a, p. 14)Economic power is the fact of life in this new industrial system (Clark: 1960, p. 22). As such, perfect competition is obsolete. A new approach is needed.

John Maurice Clark takes Edward Chamberlain's (1950) and Joan Robinson's (1933) theories of monopolistic and imperfect competition as a departure point in his analysis. His aim is to inject dynamic elements into the static nature of the neoclassical economic theory by borrowing a process approach to competition from the Austrian School, while mitigating the adverse societal implications of the theories of imperfect and monopolistic competition(Schumpeter: 1950, p. 83). Updating the neoclassical theory without giving up the ideal of perfect competition fully and finding a political solution to the 'problem' of large business enterprises without breaking them into smaller units in order to benefit from economic efficiency is the main public policy objective (Clark: 1969, p. 489; Clark: 1969, pp.39-40).

The origins of effective competition go back to the early twentieth century (Hickman: 1975, p. 13).Coordination in the market through free or undistorted competition is the backbone of the economic system in Clark's view. Business competition, defined as a process of rivalry instead of a market structure, is a semi-inviolable principle. In general, competition stimulates producers to derive more production out of a given amount of capital, labour, materials, and equipment by constantly stimulating physical productivity, thereby revolutionizing industry at an incredible pace (Clark: 1969, p. 140).Aware of the unlikelihood of perfect competition, Clark promotes the idea of effective competition that entails a different vision of business competition (Clark: 1940). It is a theoretical attempt to find a solution to the negative results achieved by the application of the theories of imperfect and monopolistic competition (Clark: 1961, p. ix).

Clark's main concern is the economy as a whole. Effective competition is aimed at finding a solution to the problem of sectoral imbalances due to *unbridled competition*. "The most serious inequalities are those between the pressures of competition in industry and trade, on the one hand, and, on the other hand, the pressures it would produce, if unmitigated, on agriculture and labor." (Clark: 1955b, p. 462) Clark makes an argument for well-diffused competition in resolving the problem of disparity in sectoral growth. For him, effective competition propels mobility of productive resources and hence decreases 'the inevitable inequalities in rates of growth in different parts of economy.' (Clark: 1955b, p. 455) Progress in efficient production methods of business enterprises, products with different range of qualities and types, development of new products, and finally diffusion of benefits of progress to factors of production, especially to workers in the form of higher wages are some of the public policy goals to be achieved with effective competition (Clark: 1955b, p. 453-454).In short, effective competition targets 'balanced growth' between sectors.

In Clark's view, competition between business enterprises is a dynamic process consisting of competitive moves and responses at the individual business enterprise level(Clark: 1955b, p. 457). "The essence of competition is the fact that the single firm acts in a setting of other firms that stand in a relation of rivalry which conditions the actions of each. This setting has been thought of as the "industry"; the simplest conception of an industry being a group of firms producing a single homogenous product within the same market." (Clark: 1961, p. 102)Competition is a price rivalry between business units and sellers based on the motive of seeking maximum net revenue under the circumstances of limited power to set price (Clark: 1940, p. 243; Clark: 1943). Competition appears as an independent activity in the pursuance of astable stream of profit (Clark: 1954). In aggressive and defensive forms, it creates, reduces, eliminates, and recreates profits in different sectors of the economy (Clark: 1955b, p. 454). In that regard, it is a kind of neutralization process initiated by the first actor. In effective competition, business enterprises deploy non-competitive trade practices in search for security against excess levels of competition rather than making exorbitant profits, according to Clark (Clark: 1960, p. 71).

At the industry level, the rationale behindthe theory ofeffectivecompetition is that industry does not operate at full capacity or at a point where marginal cost is equal to marginal revenue, as in the case of perfect competition. Production costs are minimal when industry works at full capacity. In actual competition, however, demand fluctuations cause the industry to operate below or above its actual capacity. Effective competition is aimed at creating competition under these market conditions. Clark, in contrast to Edward Chamberlin's assertion, assumed that long-run cost and demand curves are much flatter than those of the short-run as 'long-run forces serve to mitigate the seriousness of the effects of imperfect competition.' (Clark: 1940, p. 246; Chamberlin, 1950)

The absence of gross differences between long-term and short-term adjustments is due to the flattening effect of *potential competition* and *substitution* on the slopes of individual demand curves. The effectivecompetition targets the reduction of the discrepancy between the immediate short-run pressures and the conditions of long-run equilibrium (Clark: 1940, p. 249). 250). The pragmatic objective is to use the individual sloping demand curve positively by taming, controlling and deploying the economic power of large business enterprises for the 'general interest'.Effective competition is designed for loosely oligopolistic market structures to prevent deleterious effects of ruinous competition and fluctuating demand. In contrast to perfect competition, business enterprises in the effective competition are expected to have some degree of market power to effect price changes. Price should be stable and above marginal cost in order to cover average costs to prevent bankruptcies in bad times. In this scheme, higher prices are not seen as a problem *per se*. Besides, enough profit margins between prices and costs to stimulate demand in dull times and do the reverse in boom times are expected in effective competition. Industry bankruptcies can be prevented when the prices are set above the marginal cost and secondly when a greater margin between prices and costs creates an environment for stimulating or curbing demand for business enterprises(Sosnick: 1958, p. 419).

As hinted above, effectivecompetition requires not many but 'enough' number of producers or seller of similar products to give consumers and vendors the freedom to choose from different producers or consumers respectively. In addition to price-sensitive quality differentials, free entry to the market, free

access to information and some uncertainty about meeting price reductions are preconditions of effective competition (Asch: 1970, pp. 120-121). With respect to market structure, effective competition does not have any rule *per se* against concentrated economic and financial power. In principle,a loosely oligopolistic market structure is seen asthe most suitable for a public policy purpose. Economic concentration is allowed. At the same time, rules to protect suppliers, competitors, producers, buyers, customers, communities and democratic liberties against possible of economic power is required (Sosnick: 1958, p. 418).

Regarding market conduct, actions such as shielding of inefficient rivals, producers or customers, using tactics such as unfair, coercive, exclusionary and or predatory and misleading sales promotion are not allowed(Asch: 1970, pp. 120-121). Outright collusion is seen as the most harmful market conduct for effective competition (Clark: 1955b, p. 461). Nonetheless, all types of collaboration are permitted as long as they promote welfare without damaging 'public policy objectives'. Cooperation and collaboration in every form such as interlocks, joint ventures and technological pools are allowed with a condition that they do not harm competition or cause the concentration of economic power. Even economic discrimination is also possible on condition that it is not against weaker sellers and small buyers. Price should be within an indicated range(Sosnick: 1958, p. 418).

Overall, effective competition allows business enterprises to shape and reshape the market with their economic power with the purpose of increasing market performance.Conditions of performance are efficient production, absence of excessive promotional expenses, a particular profit level for rewarding investment and efficiency, inducing innovation and consistency between output and efficient allocation of resources, congruity between product quality and consumer interest, pursuing better products and techniques, and finally conserving resources (Asch: 1970, pp. 120-121). As a source of legitimacy of effective competition, performance is the key to accepting business enterprises' conducts such as profit seeking behavior and aggressiveness in rivalry and bargaining. Any public or private action that is thought to contribute performance becomes permissible(Sosnick: 1958, 421).

Nevertheless, the market is not trusted because of its deleterious effects on public policy. Business competition is not 'a simple and self-acting regulator that maintain itself' without any outside help (Clark: 1961, p. 1).Market corrections are the rule, not exception whenever there are obsolete or undesirable market conditions or behavior (Sosnick: 1958, p. 417). In sum, effective competition envisages a social market economy, rather than laissez-faire capitalism and the state has a crucial role to play in market governance.

III. THE MARKET-STATE RELATIONS

So as to set up such a market and maintain effective competition, the state is attributed three cardinal functions. The first is to create a market structure favourable to effective competition. The second is to protect and to maintain effective competition with antitrust or competition law (Clark: 1969, p. 168). The third is to correct market failures and imbalances that effective competition creates through moderate fiscal redistribution for the following reason: "The economist's chief mechanism –the market- cultivates certain kinds of needs and neglects others." (Clark: 1960, p. 10) The state must be involved in the provisioning of some of these needs directly (Clark: 1960, p. 23; Clark: 1969, pp. 151-161).However, Clark is against the Keynesian welfare state due to the risk of high inflation this model may create (Clark: 1960, p. 105). In fact, fear is not a temporary increase in inflation per se, but the difficulty of bringing it down in the oligopolistic markets where prices are inflexible especially downwardly. Inflation is a serious evil, if its long trend average is more than two percent (Clark: 1972, p. 45).

The theory of effective competition prescribes a particular form of a political institution, (i.e. a 'strong state') (Clark: 1969, p. 165). Clark's vision of the state is a very dynamic entity, as informed by the empirical approach he uses: "The modern political state is a thing in evolution; it is already very different from anything known to the founders of British individualism or the framers of the American Constitution, and in another century it will almost certainly become something very different from what it is now." (Clark: 1969, p. 165).Clark notesfour fundamental characteristics of the strong state. First, a strong state inevitably necessitates centralization of power and increasing power of central authority. Second, it requires technocratic decision-making by 'competent' bureaucrats. Third, these technocratic bureaucrats should be free from political interventions and able to realize the goals of the community. Finally, the community's ends, rather than its political concerns, should be the guiding factor behind the actions of these technocratic bureaucrats (Clark: 1969, pp. 490-491). Hence restrictions to democracy are accepted in return for some efficiency gains (Clark: 1969, p. 494).

The state is seen as a guardian of the public interest and bureaucrats are perceived as agents of realizing the public good. Clark prefers to rest the legitimacy of the state on its successful management of the economy, not on active citizen participation directly.(Clark: 1969, p. 149).

Specific market interventions by the state should not be arbitrary, nor should they be considered freely each time whenever conflict arises. If there is a need for state intervention, the limits of that intervention must be defined in advance. If co-ordination through competitive prices is not considered as a basic

principle, political pressures rather than economic logic govern the legislators' choices of interventions and bureaucrats' discretionary administration of such measures. Such arbitrary interventions may have deleterious implications for the already interconnected sectors of the economy (Clark: 1969, p. 123).

Overall, the objective of envisaging a strong state based on rule of law is to isolate the political state from the influence of powerful economic interests. Large business enterprises influence policy making with their economic power. Keeping the state in a minimum size and defining the possibilities and limits of the powers of the political state clearly are the two ways to prevent economic power influencing political power. What is meant by 'strong state' is a state that is constrained by the political constitution to prevent it from becoming a target of special interest rent seeking. The state is granted autonomy in making laws and administrating on a daily basis in order to isolate it from social pressures.

DISCUSSION AND CONCLUSIONS

In retrospect, the theory of effective competition is an innovative and novel approach to business competition. It provides an alternative way of achieving public policy goals by finding a middle of the road solution to the problems of the theories of perfect, imperfect, and monopolistic competition. In Clark's view, competition takes place between business enterprises in the same industry. (Clark: 1961, p. 104). However, he does not mention the relations between firms in the same industry over time (Markham: 1950, pp. 360-361). Secondly, effective competition is aimed at a balanced economic growth between sectors. By targeting a balanced growth with diffused competition, Clark reproduces perfect competition under a different name. Not surprisingly,Clark himself sees effective competition as an inferior substitute for perfect competition (Clark: 1961).Thirdly, effective competition is ambivalent towards economic concentration, thereby it is 'an invitation to industrial fascism.'(Markham: 1950, p. 349)It also creates challenges for defining market concentrationin antitrust or competition law enforcement (Markham: 1950, p. 349; Sosnick: 1958, p. 382).

Fourthly, effective competition inclines to protect the interests of the producers and sellers, not buyers or consumers or workers directly, as it aims at mitigating the effects of demand fluctuations on producers' income. Clark targets a balanced economic growth, but effective competition implies unequal income distribution (McNulty: 1968, pp. 654-455).State intervention is encouraged under very limited circumstances with respect to income distribution.Finally, it seems that there is a contradiction between being permissive to monopolies and preserving liberties or democracy.

In conclusion, this essay has demonstrated thatJohn Maurice Clark frameseffectivecompetition within a wider environment that requires a dynamic understanding of the market-state relations. That the theory of effective competition requires an active state insulated from public pressure through juridification means that the state should not be a passive player. On the contrary, it is a market maker and maintainer. Next step is to examine how the theory of effective competition influences public policies in antitrust or competition law implementation, which is the main shortcoming of this essay due to space limitation.

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