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When Economics Faces the Economy: John Bates Clark and the 1914 Antitrust Legislation

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Pages 139-163 | Published online: 12 Dec 2012

Cite this article <https://doi.org/10.1080/09538259.2013.737129>

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Acknowledgment

This essay is dedicated to the memory of Warren Samuels (1933–2011), who gave guidance and encouragement to the writer, and was a continuous source of inspiration to the entire community of historians of economic thought.

Notes

¹From 1898 to 1902 at least 303 firms disappeared annually through mergers; 1208 disappeared in 1899 (Nelson, [1959](#), p. 37). According to Lamoreaux ([1985](#), pp. 1–2), in those same years at least 72 consolidations led to the formation of entities that controlled over 40% of an industry, and 42 to entities that controlled over 70%.

²Clark's idea of potential competition, although profoundly influential among American economists at the turn of the last century, was not immune from criticism. Arthur Cecil Pigou, reviewing *The Control of Trusts* for the *Economic Journal*, objected that there are no reasons for the monopolist to reduce prices in advance of entry. When a potential competitor is deciding whether to enter, it will rationally look at the market conditions that may prevail after entry as a consequence of the incumbent's reaction, not at the price level before entry. As Pigou ([1902](#), p. 66) noted: 'It is not enough for a potential

rival to know that the monopolist will raise prices if he enters; he must also know that the monopolist will not raise prices if he does not enter; and competition will be maintained only if the monopolist is forced to raise prices before he enters. This is the case only if the price is maintained above the level that would prevail if the monopolist were to enter the field. The monopolist must be forced to maintain the price at a level above the level that would prevail if he were to enter the field. This is the case only if the price is maintained above the level that would prevail if the monopolist were to enter the field. The monopolist must be forced to maintain the price at a level above the level that would prevail if he were to enter the field. This is the case only if the price is maintained above the level that would prevail if the monopolist were to enter the field.

³This section discusses the impact of the Sherman Antitrust Act of 1890 on the development of the modern corporation.

⁴On the other hand, the passage of the Clayton Act in 1914 and the Federal Reserve Act in 1913, along with the establishment of the Federal Reserve System, marked a turning point in the history of the US economy.

⁵Clark is a professor of economics at the University of Wisconsin-Madison. His book, *The Control of Trusts*, was published in 1912. Van Hise ([1912](#)) argued strongly for a powerful administrative commission to regulate the economy.



with far-reaching authority to regulate prices. The quoted letter from Clark, dated September 20, 1912, is preserved in the John Bates Clark Papers, Rare Books and Manuscript Library, Columbia University.

⁶In the closing passage of his Independent piece, Clark ([1912b](#), p. 894) wrote: 'The present writer is a Republican, the descendant of Republicans, Whigs and Federalists. Tested by general views of the Federal constitutions, he thinks both his hereditary party and the new Progressive one have the advantage over their common rival. By the test of practical action in the most vital issue of the day he concedes that the Democrats win.'

⁷The document, marked 'Confidential', was entitled 'Proposal for a bill to create an Interstate Trade Commission, to define its powers and duties, to provide for the registration and license of persons, partnerships, corporations and joint-stock associations engaged in interstate commerce, and for other purposes; Dec 16, 1913.' A copy is preserved in the Seth Low Papers (Box 105) at the Rare Books and Manuscript Library, Columbia University.

⁸Proposal for a bill to create an Interstate Trade Commission; Dec 16, 1913; Sec. 15.

⁹Proposal for a bill to create an Interstate Trade Commission, Dec 16, 1913; Sec. 12.

¹⁰Proposal for a bill to create an Interstate Trade Commission, Dec 16, 1913; Sec. 23.

¹¹The letter is preserved in the John Bates Clark Papers, Rare Books and Manuscript Library, Columbia University. The text of the letter is available in the [John Bates Clark Papers](#), which form the basis of the [John Bates Clark Papers](#) and the [John Bates Clark Papers](#).

¹²As to the letter, it is a copy of the original, and any explicit reference to the original writings is not necessary. The letter is phrased in a way that is consistent with the original.

¹³Wilson, *Journal of the American Economic Association*, Congress Vol. 29, pp. 153-158.

¹⁴In testimony before the Senate Committee on Commerce and Manufactures (1914, p. 328) affirmed that the requirements of economics, with present conditions and economic tendencies'

¹⁵These 'cease and desist' orders could be issued only after hearings, could be enforced only through decrees of circuit courts of appeal, and were subject to appeal.

¹⁶The text of the Clayton Act can be found online at: <http://www.justice.gov/atr/public/divisionmanual/chapter2.pdf>. The passages quoted below are cited by the relevant section number of the Act.

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