Viewing the Great Recession through Radical Economics: Social Class, Inequality, and the Social Safety Net

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Abstract

The major contributor to Radical Economics was Karl Marx. This article makes the case that Marx should be appreciated for his contribution and the values he brought to today's macroeconomic debate.

Introduction

Karl Marx is the central figure in the history of socialism. It is less easy to establish a consensus as to why he is pre-eminent and it is notoriously impossible to obtain agreement about the significance of his form of social analysis. But his methods, nonetheless, endure today and have the potential to provide insights that could arguably help provide a blueprint to remedy the dysfunctions of the present day economy. Marx's philosophical system as a fusion of three intellectual traditions: German Idealism, the French Enlightenment, and British classical economics (liberalism). He blended these three traditions into a

Global Virtue Ethics Review
Volume Seven, Number One, pp. 70-94
2014

coherent theoretical structure, which provided the emerging socialist movement with an intellectual basis for analysis. This social construct provided a critique of capitalism and the dominant nineteenth-century philosophy of liberalism (Singer, 2000). The re-presentation here of Marxist analysis is intended to provide a model for better understanding the causes and effects of the Great Recession. Over time, and through a series of class antagonisms, Marx argued that the successor to capitalism will be communism, where class formations based on ownership of the means of production are eliminated. Class and the possibility of class conflict will be abolished so that no antithesis to communism arises. In this state the human person will finally control the economic forces affecting all aspects of her/his existence, and thus, be truly free.

The development of capitalist relations of production has been long and complex. It matured in Britain for over two centuries before the industrial revolution and had two transitional phases (Weber, 1946; Hook, 1955). Firstly, the small producers became emancipated from feudal bonds, and, secondly, they were separated from ownership of the means of production. A number of factors were crucial to this transformation, including growth of population, indebtedness, market development and production, the prevalence of monetary exchange, and a series of technical inventions harnessing mechanical power. In the late eighteenth century a population increase plus recruits from surplus agricultural labor supply furnished a proletariat to work with the accumulating capital. In such specific historical circumstances Marxism attempted to provide a systematic analysis of these definitive changes in the economic life of a civilization. What is apparent to some is that alterative models of economic organization were needed then and now today, especially with the devastation of the economy with the Great Recession of 2008. Some are urging, as those in the past, a more democratic grass roots economy, to be seriously considered in policy discussions (Max-Neef, 1991; Max-Neef, Elizade, & Hopenhayn, 1991; Max-Neef & Ekins, 1992).

Economic Historicism

Marx envisages three broad phases of human history. The first phase is defined by Marx as the *natural economy* phase in which economic production was largely agricultural and conducted through the institutions of slavery and feudalism. Thus social relations were based on dependence. The second stage began with the first widespread development of productive forces, such as, subsistence farming and livestock production, to ensure a consistent food supply. During this phase, goods were produced for sale, initially on an artisan basis, but later under capitalist relations. People no longer simply produced food for direct use, but rather specialized in making a single commodity for sale. This phase, *commodity production*, ended personal dependency and was later consolidated during the industrial revolution. Finally, the third broad phase of human history, *communism*, occurs when dependence upon the market is replaced by collective control of production by producers or workers. In this final phase, the point of economic activity is to satisfy human needs on the basis of Marx's famous dictum: "From each according to his ability, to each according to his needs!" (Marx, 1875, p. 321). In the communist state, freedom is understood in terms of the community owning and controlling its social and economic relationships, while allowing the individual to fully operate under the auspices of free choice (Singer, 2000; Chomsky, 1999).

Marx argues that historical developments are not random but rather can be analyzed systematically through an economic model, whose base consists of two propositions. The first is the *modes of production which are the fundamental determinant of social structures which condition human choices, actions, attitudes, and civilizations* (i.e., the wind-mill is to feudal society as the steam-engine is to capitalist society). A mode of production therefore is composed of instruments of production (i.e., productive technology) and relations of production (i.e., the social relations under which the surplus is produced and its use controlled). This economic base or *substructure* of society determines non-economic institutions and processes, which constitute the *superstructure*. The second being that the *modes of production possess a dynamic of their own in that they change according to their inherent functioning to produce their successors*, i.e., the wind-mill creates the socio-economic environment in which the adoption of mechanical milling becomes a practical necessity that individuals and groups are powerless to alter (Elster, 1985). The operation of the steam-engine, however, creates new social groups and attitudes which interact in such a way as to outgrow their institutional infrastructure. Major historical changes occur when the relations of production become a hindrance to developing the forces of production and thus to increasing human control over nature. Each configuration of the relations of production initially stimulates productive forces before becoming an obstacle to their continued expansion. In this way, Marx argues that economic change in the mode of production influences historical change.

It is important to note that Marx's position is not rigidly deterministic. The dominant mode of economic production influences the way and manner in which people interact with each other at various levels in society. This is the case economically, since that particular economic setting provides no other structure for interaction. It means that the overall economic setting conditions everyone who interacts with that setting, specifically with regard to religion, law, employment, education, media, etc. The Marxist point is that the economic *substructure* of a given society seeks to reveal the economic conditions that shape them and account for their performance. Production and exchange are the basis of every social system, from which major changes result, so that the mode of production ultimately determines the superstructure (Hook, 1933; 1975). Marx sees non-economic ideas as "transmission belts" through which economic influences become reflected in individual personalities. This economic interpretation, where the substructure influences the superstructure, is often classified as "materialism," and the outcomes of these relationships invariably lead to conflict in society (Bacevich, 2002).

One classic example of this form of "materialism" is a theory put forth by Beard who argued that the cause of the Civil War in the United Sates was not fought over slavery and freedom, but rather the agrarian economy of the South relying upon free trade and the nascent industrial capitalism of the North requiring tariffs to protect infant industries from foreign competition (Beard, 1913; Beard & Beard, 1927; Beard, 1943). This theory emphasized the "materialist" causes of the Civil War, which were either overlooked or categorically dismissed by scholars. The importance of a materialist, or Marxist perspective in this case is that the cause of this particular war, and possibly others, has its source in the economic configuration of a society. The American Civil War occurred since the industrialist North and agrarian feudal South were divided on which economic model would survive or prove to be the better way of conducting business and generating profit. Moreover, other theorists such as Hacker have argued, in what has been termed the "Beard-Hacker Thesis," that the [civil] war's major achievement was not necessarily the abolition of slavery as its primary goal, but rather "the triumph of industrial capitalism" (Hacker, 1940, p. 373).

Social Class

Marx and Engels stated in *The Communist Manifesto* that history is a series of class struggles (i.e., masters v. slaves, lords v. serfs, master craftsmen v. apprentices and journeymen, capitalists v. workers), each successive stage evolving from its predecessor in which classes are the crucial actors propelling historical development (Marx & Engels, 1847). The nature of class control over production and distribution of profits differs between economies, but is nevertheless the basic relationship upon which the social structure rests according to Marx. The concept of class conflict distinguishes Marxist analysis from most conventional social science. Marx's theory of social class and class conflict therefore rests upon three basic propositions. First, classes are groups of people sharing a common relationship to the means of production. In class-divided economies (i.e., all since primitive communism), there are two basic classes – the owners and non-owners of the inanimate prerequisites for production. Thus the class structure of capitalism may be reduced to the capitalists who own and the workers who do not own the means of production. Second, the owners and non-owners in the productive process make their interests necessarily antagonistic, because those owning productive property can exploit those without it. Exploitation has a precise meaning for Marx, referring to the mechanism whereby the dominant class extracts surplus labor from the subordinate class. Workers retain only part of their output, the rest being appropriated by capitalists. This is largely symptomatic of the fact that no society, no matter how economically capable of generating capital, has ever dismantled the social distinction (so unquestioningly accepted by humanity herself) between ruler and ruled, or, the capitalist and worker (Singer, 2000). Third, the resulting class conflict generates economic and political structures that reinforce a "class consciousness" – an understanding of the economic causes of exploitation and oppression, the structure of a particular class of people and their class interests (Eagleton, 2011; Ranson, 2010).

The struggle between capitalists and workers emerges from an economic organization in which the means of production are owned by capitalists who can force labor to take employment on their terms. A capitalist society finds its members relegated to choices they might not freely elect; not to be in control of how the economy effects their own lives as workers is tantamount to having no control over society and one's life. Labor markets, and their operations, place individual workers in an inferior bargaining position when negotiating wages and conditions of work with their employers. Workers enter into employment because social conditions offer no other way of obtaining a livelihood. On the other hand, the capitalist sets in motion the labor process as a vehicle for the expansion of capital and the creation of profit. The existence of the capitalist structure implies that the majority lack access to the means of production, thus suffering financial, although not legal, compulsion to sell their labor. An economy where individuals own the capital they work with is only possible when small-scale operations yield maximum efficiency, but much of modern industry requires costly and elaborate techniques to reap profits from economies of scale. Hence, large amounts of capital are needed to start a business. Such amounts – beyond the reach of most of the population – have increased with progressive mechanization. Baran estimated that between 1890 and 1940 the initial investment involved in establishing a viable U.S. manufacturing enterprise increased on average in real terms about tenfold (Baran, 1957; Hedges, 2003).

The working class, unable to achieve such an investment, finds opportunities, methods of work by area, industry, and occupation determined by the ongoing process of capital accumulation. It is employed, dismissed, and thrown into numerous parts of the economic system and expelled from others, not in accord with its own will or activity, but with the movement of capital. As such, class conflict is not solely concerned with distribution where capitalists lose what workers gain, but focuses on the conditions of employment. Wealth yields control over resources, but this control is exercised on the basis of individual self-interest. Such dominance, deriving from capital ownership, is not universal but is of fairly recent origin. Thus the capital possessed by pre-industrial communities, such as Native Americans, was negligible in volume and easy to replace. More crucial to their livelihood was accumulated knowledge of soils, seasons, food, fiber plants, mechanical expedients and animal behavior, so that viable economic agents were not solitary cultivators or hunters but collective units. Knowledge was the product of the entire group and no great significance was attached to capital ownership. With industrialization, the capital required to put group knowledge into effect grows larger and its acquisition increasingly difficult so that ownership becomes crucial. In effect, owners of finance are able to appropriate group knowledge and its application. In this manner, the terms in which an entity of capital is defined cannot be physical but are attributes of ownership, i.e., legal rights, contract, and sale.

Consequently, capitalists monopolize a portion of the intangible assets of the community and own the capital by which technical progress is put into effect (Elster, 1982; Wolin, 2008).

Marx adds a further refinement to the notion of class conflict by claiming that capitalism undermined its own foundation by progressively eliminating small-scale owners of the means of production. Albeit puzzling that capitalism already contained the seeds of its impending doom, statistical evidence supports this claim. In the early nineteenth century around eighty percent of the non-slave population in the U.S. owned the means of production with which they worked, whereas today approximately the same proportion consists of wage or salaried workers. Their living standards have risen dramatically, but their class has become proletarian with the gradual diminution of the individual entrepreneur as the fulcrum of industrial organization. The proportion of the U.S. population that was self-employed has declined dramatically over the past one hundred years. The rapidity of this transformation demonstrates the overwhelming tendency of capitalism to convert other forms of work into wage labor (Zinn, 1995).

Nevertheless, Marx and Engels argue in *The German Ideology* that the general principles upon which the ruling class rules are socially constructed positions that become the unquestioned social dogma, or, “eternal law” of a society. They state:

> The ideas of the ruling class are in every epoch the ruling ideas, i.e., the class which is the ruling *material* force of society, is at the same time its ruling *intellectual* force. The class which has the means of material production at its disposal, has control at the

same time over the means of mental production, so that thereby, generally speaking, the ideas of those who lack the means of mental production are subject to it. The ruling ideas are nothing more than the ideal expression of the dominant material relations, the dominant material relations grasped as ideas; hence of the relationships which make the one class the ruling one, therefore, the ideas of its dominance. The individuals composing the ruling class possess among other things consciousness, and therefore think. Insofar, therefore, as they rule as a class and determine the extent and compass of an [historical] epoch, it is self-evident that they do this in its whole range, hence among other things rule also as thinkers, as producers of ideas, and regulate the production and distribution of the ideas of their age: thus their ideas are the ruling ideas of the epoch … This conception of history … will necessarily come up against the phenomenon that increasingly abstract ideas hold sway, i.e., ideas which increasingly take on the form of universality. For each new class which puts itself in the place of one ruling it, is compelled, merely in order to carry through its aim, to represent its interest as the common interest of all the members of society, that is, expressed in ideal form: it has to give its ideas the form of universality, and present them as the only rational, universally valid ones (p. 64-66).

The argument appears to be compelling in that a ruling minority in a class structured society – an economic system that is based on the expropriation of wealth created by a majority underclass – must maintain its dominance in society, according to Henry, and "attempt to convince the producers (serfs, slaves, workers) that the minority's interest (capitalists) are those of the population as a whole. It must attempt to conceal the real foundation of society (or to turn reality upside down), and must present this society as the natural or rational form of organization which, in one form or another, has existed universally. Given control of the principle instruments of communication by those who are politically powerful, the dominant ideas that are produced and disseminated all promote the view that what exists is not only 'meek, right, and salutary,' but normal" (Henry, 2009, p. 28). The reality of the situation masquerades as something other than what it truly is. Ideas, understood here, develop within a unique social context and are then reinforced throughout a given society as unquestioned truth or "plausibility structure," which benefits the elite (Berger, 1966; Berger 1967). Henry further states:

> This illusion has been developed at various times in different places to satisfy the interests and requirements of particular ruling classes given the specific characteristics of the society from which their privileges are developed and maintained. Aristotle's arguments that slavery is natural, that humans are political animals best suited to existence within city-states are early examples of the illusion. Feudal lords or their religious representatives maintained that the (ostensibly) rigid hierarchical structures of

> their society were God-ordained, thus perfectly natural. In more recent periods, the philosophical arguments surrounding the search for the "absolute" represent, in modern guise, the millennia-old justification for extant society, institutions, mores as universal. All human nature or instinctual theories of behavior, social arrangements, etc., typify the illusion. Anthropological of sociological tracts, while perhaps treating of different social organizations, that set forth the position that what exists is normal are the rule in conventional circles (p. 29).

What Marx and Henry are attempting to argue for here is that communism originates from capitalism; it is brought about in a revolutionary situation. Workers' revolutionary potential is realized only in line with a set of objective conditions (economic crisis caused by capitalism) and subjective awareness (class consciousness). In addition to many specific insights, the overall achievement of Marx's theory of social class is to emphasize that economic relationships possess a social character and this compounds the revolution's ethos as well (Hook, 1955; 1962).

Social Analysis

In general, Neoclassical and Keynesian economists have been slow to recognize the significance of social classes when analyzing social and economic arrangements (Friedman, 1962; Krugman, 2012). For Friedman and Krugman, there are only "individual actors" and not social classes when they theorize economically from their unique perspectives. However, radical theorists such as Bell argue that "individuals" exist within a class structure under certain productive relations generated by a particular mode of production. By treating all economic agents as individuals making choices, the orthodox economists (Neoclassical and Keynesian) fail to perceive that the range of choices available (or its absence) depends upon the individual "chooser's" class position. They also ignore the fact that freedom of choice often characterizes capitalism by its preference in trivial aspects and its absence in important ones – specifically the lack of "revolutionary action" in the United States (Bell, 1996; 1960). Thus workers possess a degree of choice concerning which capitalist they work for, but cannot, for financial reasons, decide not to work at all. Similarly, capitalists can choose where to invest their capital, but they must invest profitably to retain their position. Individuals are potentially equal at the level of exchange, but within production they are unequal and bound by capitalist class relations. Such substantiations, about how there are varying degrees of freedom in economic choice in capitalist society, makes classless assessments of economics untenable at best, specifically since there is no comparable economic choice that exists between, for example, the rich and poor (Max-Neef, 1991).

Orthodox economics emphasizes the freedom of the market and fails to uncover the relations of production which influence economic development. So implicitly it is ideologically supportive of capitalism, while analytically it fails to explain why different economic formations exist and how transition from one to another occurs. To reveal the relations of production, a class analysis concerned with the interaction of groups defined in relation to their role in the labor process, is required. Orthodox economists tend to view the social character of economic relationships as natural and harmonious, but economics for Marx, centers upon the determination of these relationships and their development. Therefore, disagreement exists between

Marxists and non-Marxists about the scope of economics and the foundation of Marx's analysis based on class monopoly of the ownership of the means of production.

Social analysis based upon classes depends upon, or is relative to, the definition of class adopted. Interpretation of the mechanism of social change is very different, depending upon whether the issue is class struggle, such as Gobineau suggests, or a division of labor theory expounded on by Durkheim (Gobineau, 1855; Durkheim, 1933). Even if definitional agreement is reached, different analyses flow from different conceptions of class interest and from different opinions about how class action manifests itself. From a Marxist viewpoint, classes are stratified by ownership, or exclusion from ownership of the means of production, or in other words, those possessing property and those compelled to sell their labor. Intermediate groups, e.g., artisans, farmers, and professionals, are acknowledged but are seen as anomalies that become "proletarianized" during capitalist development. Rifts within each class may occur in particular situations, but ownership of the means of production polarizes society into two strata: capital vs. labor. This division is something that Marx, and the variegated Marxist tradition, attempts to identify, analyze, and bridge.

Weber claims that Marx and fellow Marxists exaggerate the antagonisms between capitalists and workers (Loewith, 1970). Evidence of cooperation, specifically Engels factories in Europe were examples of capital and labor cooperating. But radical theorists and Marxists both argue that class relations will be inherently antagonistic, not if isolated cases of cooperation exits, but if major structures in society create policies that legal bind this cooperation, such as an "economic bill of rights." To capitalists, wages are both a cost and a source of purchasing power that serves their individual interests. There is no inherent drive under the "individual actor" scheme in capitalism to include the inherent rights of workers to the surplus value they create. The classes conflict over distribution, yet the possibility that each party (labor-capital) shares an interest in maintaining production and increasing national income is undermined by capitals relentless drive to maximize profits. Whether cooperation or antagonism is the dominant facet of class relations in particular circumstances and in general theory, it remains a controversial issue. Both are always present and each group endeavors to represent its interests as society-wide, but examples of class cooperation are not necessarily widespread. And to further compound the issue, the capitalists and workers of developed economies have each, in varying degrees, exploited the underdeveloped or destitute populations particularly in developing countries. So worker solidarity in the advanced economies like the United States does not always translate to worker solidarity in Sri Lanka (Chalmers, 2010; Chalmers, 2007; Chalmers, 2004; Bjerg, 2009; Alexander, 2008). In fact, while Schumpeter differed with a number of Marx's positions, Schumpeter did agree that Marxian methods of social analysis did ultimately uncover the various class antagonisms brought on by capital accumulation. This analysis for Schumpeter identifies the most important contradiction inherent to capital in which Schumpeter described the outcome of capital accumulation in terms of a "creative destruction." Marx was correct, according to Schumpeter, in that this outcome invariably resulted in economic crisis (Schumpeter, 1942; 1966).

Inequality and the Safety Net

Marx noted how inequality between capitalist and worker would only increase over time until revolutionary action overthrew the capitalist class and implemented a new communist state complete with the "new man" and his/her transformed socialist identity. Today, inequality and increasing class stratification continues to result from the asymmetrical developments of capitalist development (Hook, 1955). In fact, a recent Census Bureau report confirms that 20% of all U.S. citizens with the highest incomes captured an even larger share of the earnings in 2009-2011, while the remaining collected the same share or less (U.S. Census Bureau Report, 2009; 20010; 2011). This widening gap of income inequality is disturbing, and, as the report indicates, economic divisions have become increasingly worse. Without such safety net programs provided by the welfare state, such as, unemployment benefits and food stamps, millions more families would have fallen into poverty. The bureau's annual reports on income, poverty and health insurance show that the year-to-year comparisons offered do not reveal anything about income mobility or the ability of people to move up (or down) the economic ladder. But they do show that the vast majority of U.S. citizens continue to see their financial status decline. In 2011, the median income fell for the fifth year in a row, to $51,000 – a decline of 1.5%. This drop in income declined for all four ethnic groups (White, Black, Latino, Asian) tracked by the census, and for both men and women. The exception was in the top 20% of U.S. incomes, which held steady. The outcome of this study revealed that the highest-income earners in the U.S. grew, while the middle 60% of income earners declined. The bottom 20% saw no change yet the gap between the rich and poor was the highest on record. As long as the results of the economic recovery are modest and the benefits received are primarily with the highest income earners, then the median income will drop and the poverty rate will, for all intents and purposes, not decline.

The positive side to this analysis is that poverty, after rising for the past four years, remained at 15%, the same as in 2010. The rate is generally understood to be the percentage of households with incomes below the federal poverty line, which in 2011 was $23,200 for a family of four. That's roughly where the rate was in the early 1980s and early 1990s. It falls during boom times and rises when unemployment surges. Part of the explanation for the leveling off was the growth in year-round, full-time employment among lower-income Americans. That is both positive and negative outcome since the creation of jobs can only help and economy, but it nevertheless reflects the fact that most of the jobs being created in the recovery are lower-wage jobs. This is also the case with Cuba, even with the "liberalization" of the economy (Rivera, 2000). Moreover, the federal poverty rate is based on pre-tax, inflation-adjusted income, which does not factor in benefits provided by such anti-poverty programs as subsidized housing, Medicaid and food stamps, although it does include unemployment benefits. Economists have argued that disposable income and consumption data provide better measures of poverty. Their analysis demonstrates that the percentage of impoverished Americans has dropped significantly over the last three decades. Even figures from the most recent economic downturn in the Great Recession, according to economists Meyer and Sullivan, demonstrate that incidents of poverty were stabilized due to the federal "safety net" (Meyer & Sullivan, 2013; 2011; 2009).

It is reasonable to conclude that an alarmingly high number of U.S. citizens would have been impoverished last year if not for federal and state governments' spending on safety net programs (Nolan, Weimer, Smeeding, 2009). According to the Census Bureau, unemployment benefits kept 2.3 million Americans from falling into poverty. If the earned income tax credit had been factored in, 5.7 million people would have been lifted above the poverty line. If food stamps were considered, 3.9 million U.S. citizens would no longer be counted among the impoverished. As such, those programs helped the overall economy by propping up the demand for goods, but they cost billions. Congress, which expanded all three programs as part of the 2009 economic stimulus package, has struggled to decide when to pull them back. Liberals have argued that the economy at the present time is not strong enough, while conservatives have argued that the aid discourages people from returning to work. With 3.5 job seekers for every opening, it is hard to argue that unemployment would drop significantly if the jobless were more desperate for cash. In fact, according to the Census Bureau's figures, the reductions that Congress made in unemployment benefits last year resulted in nearly 1 million more people in poverty, even as more people found jobs. Nevertheless, those benefits are slated to be cut further in the later part of the year, along with tax credits for the working poor and low-income parents. Congress is also considering a new farm bill that would narrow eligibility for food stamps, if not reduce approximately 20% of those on food stamps. Even with the slight upturn in the economy at the present time, the overall description of a still sluggish economy, all the reductions called for seem premature and potentially counterproductive. Should policymakers fail to heed the deleterious effects of the Great Recession, economic relations will only further drive society into situations of wrongheaded competition rather than mutual cooperation for the benefit of all.

Conclusion

Through his theory of social class, Marx defined capitalism sociologically, i.e., by the institution of private ownership of the means of production. But to understand its mechanics an economic theory is required to show how the sociological data embodied in class behavior translate in economic terms (e.g., profits, wages, and investment). As Marx indicated, the social economic relations of a society do not only determine wages and forecasts for work; they affect the likes of politics, religion and even philosophies (Singer, 2000). Having considered the Marxist economic interpretation of history and social class it is important to address issues in the U. S. economy related to the promotion of a more democratic economy (Wolff, 2012; Resnick & Wolff, 2012; Gibson-Graham, Resnick, & Wolff, 2001).

The general historical account presented demonstrates that, according to Marx, the ultimate purpose and outcome of economic activity is for people to be "free" to obtain their fundamental human needs, while at the same time allowing for individuals to be rewarded based on their abilities (Hobsbawm, 2011; 2007; Elster 1986). This notion of freedom differs sharply from the liberal definition. For liberals, freedom refers to an absence of constraints on individuals' behavior, but according to Marx and radical economists, freedom is a *freedom to*, not a *freedom from*. Thus Marx was critical of the liberal negative concept of freedom, because for him the distinctive character of humanity lies in the ability to plan conscious activity directed towards satisfying basic human needs. Consequently, the extent to which a society is free is directly reflected to the extent to which a society controls its economy and directs itself in serving the needs of people. Consequently, the obligation of government institutions and related policies is to ensure that basic economic rights and welfare be given highest priority.

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