

WHAT HAS NEOCLASSICAL ECONOMICS  
CONTRIBUTED TO UNDERSTANDING SOCIAL POWER?

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## What has Neoclassical Economics Contributed to Understanding Social Power?

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Neoclassical economics has mostly militated against an adequate understanding of social power, indeed against acknowledging that the power even exists. Nowhere else in the social sciences is there such a studied avoidance of this most useful of social concepts. Among sociologists, political scientists, social philosophers and historians, the concept of power is nearly universally employed in comprehending social reality. But only "out on the fringe" of our field, far from the neoclassical mainstream -- among the heterodoxy of institutionalists, radicals, feminists, social economists and some post-Keynesians -- is power understood among economists. The very word "power" simply has no place in the dictionary apparently used by neoclassicals.<sup>1</sup> Why then would one ask such a question as that posed in the title of this paper?

Virtually all Western economists are trained in neoclassical economics, including those of us who have had to turn to the "fringe" of our field for a more satisfying approach to our subject. Thus one would expect that heterodox economists' work on social power would probably be colored by their training in neoclassicalism to one degree or another. I will argue furthermore that positive contributions to the broader discussion of power among social scientists generally have been made by heterodox economists precisely on account of their neoclassical background.

To see this one must first unpack "neoclassical economics". Its constituent parts may be sorted into (1) an individualist methodology or approach to questions of social behavior, (2) a uniquely neoclassical model of the individual as a decision-maker maximizing utility subject to constraints, and (3) a set of "assumptions" about individual behavior (e.g., universal selfish, unchanging preferences) and about the nature of social interactions, especially those involved in markets (e.g., perfect information, perfect competition).

All three of these aspects of neoclassicalism have generally militated against understanding social power. Power is a phenomenon of social structures, and of course individualist methods of inquiry work against analysts successfully probing the complex structures constituting power in modern societies: It is a most difficult task to "construct from scratch", i.e., from the constituent individual "atoms" of social interaction, as individualist methodologies propose to do, analyses of the specific kinds of institutions and structures involved in actually existing social power relationships.<sup>2</sup> Similarly, employing the analytically elaborate neoclassical model of individual behavior too tends to distract theorists from the efforts necessary to comprehend social as opposed to individual phenomena: neoclassical economic analyses of "social" interactions are



usually simplistic to a fault from the viewpoint of social scientists more accustomed to real complexity. And the specific assumptions about individuals and social interactions most often used by neoclassicals do not at all easily permit an incorporation of power into the economic analyses then constructed. For example, independent utility functions do not permit individuals to influence others' preferences, thus foreclosing from the outset a critical kind of power especially important in modern times. And perfect competition and perfect information in markets do not permit power based on material incentives, thus real-world markets, since they are understood to be more or less close approximations to the imaginary world of markets as neoclassicals imagine them, are seen as mainly unpolluted by power -- a thing found significantly therefore only in other realms of social life. Given the overwhelmingly involving training economists have had in this sort of thinking, it is amazing that any of them could have contributed at all to the broader social sciences discourse on power.

Of course, it is not all that difficult to "alter assumptions" as neoclassicals themselves sometimes do, thus yielding models of, for example, altruism, status-seeking consumer behavior, principal-agent relationships or market externalities. And arguably a radically individualist methodology, as seems to be proposed in neoclassicalism, is actually impossible -- in a complex social world, some social phenomena simply cannot be theoretically derived solely from individual behavior -- thus even neoclassicals find it necessary or fruitful to take advantage of insights originated by structuralist theorists. But merely dropping assumptions and borrowing major insights originating elsewhere in the social sciences are unlikely to lead economists to making significant contributions of their own to the social science of power. However, what has constituted a real contribution, I will argue, is the uniquely neoclassical theoretical approach to comprehending individual behavior -- the model of the utility-maximizing individual making choices subject to constraint.

That model is arguably the real "heart" of neoclassicalism, and it is what is retained even as economists venture far into the realm of structuralist social science. I will refer to it here as the "core" of neoclassicalism, and I will argue that it is a helpful theoretical framework for comprehending social power as a *relationship between individuals as free agents*. That is, while power can be understood "strictly structurally", i.e., without individual agents, it is important to highlight the individual decision-makers that stand at the poles of any power relationship, and the neoclassical core model is a helpful framework for doing so even in otherwise completely structuralist analyses.

I will make the argument by outlining a more or less complete model of social power in modern capitalist societies as theorists in other social sciences understand it, incorporating an *economists' model of the power relationship itself*, that is, employing the neoclassical core theory of individual utility-maximizing choice subject to constraint. The model as a whole is a "structuralist" model of power insofar as no comprehension of social power can be otherwise: power is necessarily a thing of structured arrangements among people. But it is also "neoclassical" insofar as the critical heart of it, the power relationship itself, is understood to be essentially between two individual agents, one of whom has power over the other. Of course, it is *not faithful* to the "non-core" of neoclassicalism (i.e., elements -1 and -3 in the list above): it abandons, by necessity, any pretense to a strictly individualist methodology as well as the "neoclassical assumptions"

about individual and market behavior.

In order to evaluate this "neoclassical-structuralist" model -- i.e., to determine whether the neoclassical core theory is consistent with structuralist power theory and whether this juxtaposition can suffice as a framework for comprehending a complex power relationship -- I apply this model to an analysis of *social class*. Critical constituents of the social science of class are the concepts of *economic exploitation* and its corollary *economic inequality*, and I consider these concepts in terms of the model.

Of course, the neoclassical theory of economic inequality -- i.e., the theory of investment and human capital -- stands in stark contrast to a social class theory of inequality (at least as I will define it here). However, as long as one retains an important place for the individual decision-maker, there are critical grounds of commonality, and I explore these by successively qualifying the neoclassical theory of inequality with a series of structuralist insights that move progressively closer to a full-fledged social class theory without abandoning the theories of investment and human capital. Individuals then are seen to be making their investment and human capital decisions, but doing so in contexts closely constrained by the complexities of the class structure and their places in it. The upshot is that the neoclassical *core theory* is perfectly commensurate with a structuralist theory of power, and a "neoclassical-structuralist" model of social power so understood is quite adequate for drawing the main economic implications of power.

The core theory then is the contribution of neoclassical economics to the social science of power, a contribution, I believe readers will agree, that is clearly recognizable in heterodox economists' analyses of power and class in modern capitalism. What to make of this contribution? Partly it depends on one's viewpoint: The place of the neoclassical core theory, after one has added sufficient structuralist qualifications to make an adequate model of modern social power, may seem a small one at best. In the conclusion of this paper, however, I offer several grounds on the basis of which the economists' contribution to understanding power is arguably an important one, that is, without it one's theory of social power is lacking in some critical elements that ought to be there.

### *Power in Neoclassical Terms*

Social power is easily theorized in terms of the core neoclassical model of individual decision-making, that is, of individual utility-maximizing choice subject to constraint. Power consists in one individual's being able to get another to do something that the latter would not otherwise do. As a *first approximation*, it may be stated this way: By means of some action he or she may take, individual-A is able to get individual-B to do something that the latter would not do were A not to take that action. The power that A has over B exists *by virtue of* the particular sets of constraints to which A and B are individually subject and the particular preferences each has. The most pertinent and general kind of case is one in which A has a wider range of preferred alternatives available than does B. The *action* that A may take to get B to do something consists essentially in A's altering one or more of the constraints to which B is subject in making his or her choices. For example, A may be able to "change the terms", i.e., alter the opportunity costs, of B's taking some kind of action, hence cause B to take that action.<sup>3</sup>



In order to approach as general a concept of social power as possible, however, the "constraint" term in the neoclassical construction must be interpreted more broadly than is usual in neoclassical theory. In the latter, it is understood to encompass all those opportunity costs for the individual that can be defined in terms of *market* prices, along with the individual's available *monetary* income and wealth. More generally, however, "constraint" must be understood to include the *entire set* of opportunity costs of the various choices a person may make and the resources available to her -- including not only those that may be defined by the exchange of commodities but also those involving the entirety of all non-market activities large and small.

As one major example, the "tradeoffs" involved in an individual's taking some action often must be measured in terms of the person's time or energy rather than her monetary resources. This is especially so when her income is fixed in amount or when her income and/or wealth are too little (relative to physical needs, for example) to permit much discretion in their use, or when major portions of the person's material and social life are not organized by markets. In such cases, the value of a person's time and/or energy cannot be simply measured by money.

A particularly important set of activities whose opportunity costs often are not monetarily measureable is that of information-gathering and -processing. In effect, the whole of the "informational environment" of the individual must be included in the set of "constraints" to which he or she is subject in choosing among activities. Thus, a person may choose to attain and process information at some cost in time, energy and/or money; or she may choose some other activity for which she must forego information or an adequate comprehension of it as she allocates time, energy and/or money for that other activity.

Thus, in a more general formulation of a power relationship between individuals, an individual's power over another would consist in her being able to alter (i) the relative prices directly affecting any of the other individual's potential market transactions, as well as the opportunity costs of any of his non-market activities, (ii) the amounts of any of the other individual's monetary and/or non-monetary resources, or (iii) any elements of the individual's informational environment and/or their opportunity costs.

Being able to alter any of the other's "constraints" so understood, then, one may get the other to act in ways he would not otherwise act. Doing so may also have the effect of inducing the individual to change the *habits* with which he approaches certain kinds of decisions. Habits are, of course, "short-cuts" or "time- or energy-cost-reducing" ways of arriving at decisions in similar situations -- for example, in the gathering or processing of certain kinds of information or in deciding how to act in certain kinds of circumstances. Since people *learn* in other ways from their experiences as well, their beliefs, opinions, and attitudes about things may also be changed by their being subjected to an exercise of power (indeed these may be looked at as merely other forms of habit). Moreover, since one who has been subjected to an exercise of power may experience a change in his habits, beliefs and attitudes as a result, we should also consider the possibility of people being induced to act by having their *preferences changed*.

Taking the usual neoclassical approach, one would presume that an exercise of power would leave the subject's preferences intact: the powerful individual merely alters the

constraints (broadly construed) to which the other is subject in choosing his activities, and does not affect the other's "utility map". On the other hand, it is true that we often refer to a person's "values" as having been changed, and it is commonplace that people's "wants" may be "manipulated" by the use of deception or incomplete information. The idea of "value power", to use Randall Bartlett's [1989] term for the ability to alter another person's preferences themselves, is commonplace, for example, in education and child-rearing.<sup>4</sup> Of course, it may be that when people's preferences appear to be changed as their environments evolve, it is merely their comprehension of their world that has changed or perhaps only their habitual mode of approaching certain kinds of decisions. Thus it is impossible to determine objectively either way. Saying that preferences are not alterable by outside influence is equivalent to saying that, in effect, individuals are born with them as they are born with genetically determined hair-color or facial features [Ferber & Nelson, 1993]. However, certainly the broadest categories of human need are indeed hard-wired into our makeup -- food, shelter, clothing, human material support and company, etc. Thus, we may be inclined to adopt the more common usage (more common at least out there in the largely non-neoclassical world!) of supposing that individuals' preferences are themselves alterable by exercises of power by others, but the alternative assumption actually may not be so bad. It does not seem greatly harmful allow that at least people's "meta-preferences" [Hirschman, 1984] remain unchanged while their apparent preferences may be changed in the course of their being subjected to exercises of "value power".

In these terms then, to reiterate, an exercise of power by individual-A alters the constraints -- broadly understood -- that are effective upon individual-B, inducing B to act in some way he would not otherwise act. It may or may not accomplish the change in B's behavior by means of a change in B's "preferences", and it may or may not induce a further change in B's habits, beliefs or preferences in the longer term as well.

#### *Power structures and the neoclassical individual*

Elsewhere in the social sciences, power is understood to be a thing of social *structures*, that is, of enduring sets of relationships among individuals. Here the term "structure" conveys not only that *patterns of regularity* may be perceived in the various specific *locations and relationships* in which different individuals find themselves, but also that these patterns form an *enduring web* of connections among all the individuals involved. Neoclassical economics tends to emphasize the fluidity of market relations, but the term "constraint" connotes a lasting or at least momentarily unchanging situation. While power may involve the alteration of habits, beliefs and preferences, it is in the essence of such things that they endure over greater or lesser periods of time. From the viewpoint of the individual making decisions, the particular arrangement or constellation of the constraints to which he is subject -- including all those elements already discussed, and noting that the habits, beliefs and preferences of those around him themselves partly determine or constitute those constraints -- is what is meant by the "social structure" in which he is embedded.

Social power in general, even in an individualistic neoclassical model, must be comprehended as a phenomenon of such structures, and it is important to consider some of the "basic general principles" of power structures. Individual-A has power over



individual-B by virtue of the different sets of constraints to which each is subject -- again, in the archetypal example, A may have a wider range of preferred alternatives to his relationship with B than B has alternatives to her relationship with A. These differences are constituted in the larger social structure encompassing the various constraints to which individuals in the society are subject. That is, the constraints to which individual-B is subject, in all significant instances of power in modern societies, are constituted by the actions of other individuals -C, -D, etc., usually many such others, all of whose actions themselves arise as outcomes of decisions made within the given social structure of constraints upon them. For example, parents have power over their children not only by virtue of their superior physical size but also their socially-attained competency at a host of activities outside the home -- not to mention the various social arrangements outside the home that also discourage children attempting escape, i.e., a great number of people who have been, in effect, prepared to take various actions specifically determined by the different constraints to which they are subject but all of which have the appropriate effect.

Aside from those elements or aspects given solely by the “natural world”, constraints in the social world are also “structured” in the sense of being *constructions*, that is, enduring products or artifacts of past and current human activity. As individuals exercise power, they alter the constraints effective upon their subjects and may do so in enduring ways, or they may change their subjects’ habits, beliefs or preferences -- and either way they may induce their subjects to adopt behaviors that endure as elements of the constraint environments of yet other individuals. If power is constituted in the given social structure of constraints, its exercise in turn creates new constraints or alters existing ones. (Of course, the evolving social structure of constraints cannot be supposed to be solely the product of human activity -- “nature” plays a critical role too, at the very least in the form of the natural laws determining material reality and the human animal’s place within it.)

It should be clear enough that the structures of constraint that constitute important social power relationships may be quite *complex*, and this has important implications for understanding individual decision-making in a “neoclassical-structuralist model of power”. In a complex world, individuals may be subject to *uncertainty* in the fullest sense of that important term: in particular, they may be totally *unconscious* of some of the realities relevant to their social positions and situations. (Note that unconsciousness of some particular kinds of things is what is usually meant by “uncertainty” as the term is used in economics.) Thus people in power relationships may be quite unaware of specific elements of the structures that constitute those relationships, or even unaware of their involvement in power at all. This pertains especially to those subject to power, since often their subjection is a function of their relative deprivation of resources needed to attain and comprehend information. But even those in superior power positions may, in principle, also be unaware of it.

Complexity, along with the uncertainty and the more general unawareness that accompany it, imply that people’s decisions may have *unintended consequences*: not only may people act without knowing that in doing so they exercise or are subject to power, but also they may act, thinking mistakenly that they exercise power, with results either way that are opposite or other than those they thought would follow. As complex as are the social structures of constraint that constitute power then, the reality of power is all the

more complex yet when the role of human consciousness itself is considered.

The standard neoclassical assumption of *selfishness*, i.e., that individuals behave in pursuit of only their own self-interest, has important implications for cataloguing and understanding social structures of power. First, the powerful must be presumed generally to seek material benefit from exercising their power. There are some important exceptions, of course -- parents' power over children being one that comes to mind -- but even these must occasionally devolve to the base standard of self-interest maximization, as is all too often shown in the histories of child exploitation in both market and other societies. For most cases of social power then, it should be clear enough that the powerful attain benefit at the expense of those subject to them. For they get the latter to act in ways they would not act otherwise, in effect to devote some portion of their time, energy and capacity for activity and initiative to the interests of the powerful rather than to their own interests. In market societies, of course, the benefit taken is likely to be largely in a monetary form. The *exploitation* that is inherent in social power structures -- the taking of material benefit by the powerful from those subject to them -- should be clearly enough manifest in its effect on the distribution of income and wealth [Nielsen & Ware, 1997; Elliott, 1996].

Second, selfishness implies that the maintenance and reinforcement of the power structures on which their status rests is a major activity of the powerful as well, in the sense that some portion of the labor of those subject to their power, and of the resources yielded as its material benefits, are employed to those ends. This implies further that the powerful need not themselves devote much of their own personal time or energy to those ends or to directly exploitative activity itself -- for the essence of power lies in being able to get others to act for one instead.

Thus command hierarchies of all sorts must be examined as at least potentially more than merely "efficiency improving organizations" [Williamson, 1996], for power structures imply that what the associated organizations are most importantly efficient at doing is *securing the ends of the powerful*. In general, social constraint structures facilitate power more effectively to the extent that intercessions of direct power or command are inexpensive (use relatively few resources) or are necessary only infrequently to sustain power and exploitation. Thus the powerful, especially those at the top of power structures, may need to exercise their power less frequently the more effective is the social structure of constraint constituting their power.

In principle, moreover, people in intermediate positions of a power hierarchy, e.g., mid-level managers in a command organization like the business firm, may benefit greatly from the structure even though they lack decisive power themselves -- indeed, others who lack significant power at all may even benefit, e.g., lower-level workers. This is so because the directed activities of people in such positions may serve the interests of the "ultimately" powerful, and because status and pay levels may be part of the means of their direction. Other kinds of social organizations than command hierarchies per se presumably may also serve the interests of power as well, especially where people's habits, beliefs and preferences have been developed in directions appropriate to their conformity with the requisites of the social power structures involved. The private property system itself taken as a whole, i.e., as both a legal and social system, is arguably

such a social organization [Reiman, 1997].

Third, selfishness in a world of complexity and uncertainty implies what economists have called *opportunistic* behavior, i.e., the use of deliberate dishonesty, deception and denial of other's access to information for purposes of advancing one's own self-interest. This, of course, further compounds the prevailing uncertainty and misapprehension of complex social power structures, as well as the possibilities of unintended consequences of decisions. Moreover, complicity in deception may itself be unconscious in such a world, and especially useful therefore for the exercise of power. Ideology (ideas that are widespread not so much for their truth content but for their convenience for the powerful) and propaganda (misleading commentary that is intentionally disseminated) too become, in such a world, most useful for securing people's allegiance, thus "cheapening" the maintenance and reinforcement of power structures, at least from the viewpoint of the powerful. These realities of the role of the information environment and culture as critical aspects of the social structures of power are especially important in modern times of a hegemonic presence of mass media [Kellner, 1995].

Elsewhere in the social sciences where the conceptual vocabulary on social power is highly developed, the terms *race*, *sex* or *gender*, and *class* have assumed important roles in theorizing about power structures [Dugger, 1996]. Each designates a more or less distinct set of structures of constraint that constitutes a particular arrangement of social power. For economists, perhaps the most critical of these is *class*, for it represents most closely a form of social power structured primarily in the economy as opposed to the family, the community, the culture, etc. Yet race, gender and class are mutually reinforcing hence inter-related power structures, since as a general rule, power structures in a society tend to bolster each other. For example, the lower standing of women in terms of their economic status has traditionally helped secure their inferior status to men in the family sphere of social life (since, lacking economic resources they are less able to escape the family as a site of male dominance), and their status in the family has in turn helped reinforce their lower economic status (for example, by denying them investments in human and psychological capital [on the latter, see below]). Thus even as race, sex and class are distinguishable power structures, economists concerned primarily with class need bear in mind that in fact the three structures are actually all of a piece [McCall, 2001].

The question of *class consciousness*, a concept of great controversy among traditional structuralist social theorists, should be noted in the context of our discussion of a neoclassical-structuralist model of power. Presumably, individuals may be quite conscious of their class positions in the social hierarchy, and members of the same class may, of course, act in concert with their own class interests in mind -- and they may or may not also have their own individual self-interests in mind at the same time. It may be argued that, in modern times at least, given the costs of maintaining social organization, people following their individual self-interests usually tend to abandon class solidarity altogether [Olson, 1971]. On the other hand, individuals are often seen taking a stand on political or social issues "for their class" and against their individual self-interest. Needless to say, this represents a real violation of the neoclassical assumption of self-interested behavior.



However, social constraint structures are often such that people's class interests and their individual self-interest are made commensurate. And since presumably people in different classes accumulate different habits of thought, beliefs, and preferences, especially those having to do with the rationalizing of their society's class structure and of their own individual place in it, constraint structures need not *directly* commensurate self-interest and class interest by material incentives: people may reach or be brought to a *habit* of acting and thinking generally in their class interest by a learning process in the course of which they pursue primarily their own individual self-interest, so that at that point people tend to behave "appropriately" anyway. Thus, higher level managers and owners in business firms, in positions of sufficient power that, for the sake of their individual material self-interest, they need not necessarily feel constrained to choose one way or the other, nonetheless tend to make choices in their class interest, for example, with regard to their business' personnel policies, their participation in politics, etc.

Still, these considerations do raise questions about the neoclassical assumption of *individual self-interest*. Dropping that assumption -- i.e., supposing that instead at least some people some of the time get utility from improvements in other people's welfare [Frank, 2000, Ch. 7] -- strengthens a neoclassical model of power such as that sketched here. This is so because as a disposition to serve, "altruism", whether culturally induced (i.e., by religion or ethical socialization) or innate in the evolved human animal, may serve the interests of and be used for both the "ultimately" powerful and those subject to them. "Class struggle" then -- the conflict necessarily arising out of domination and exploitation as people in subordinate positions resist subjection -- is actually acted out by individuals with a variety of different motivations and commitments, and becomes a much more complex affair than can be imagined in a world of "purely self-interested" people. Indeed, the motivations of labor itself, the material foundation of every class structure, come to be seen in a totally different light when it is acknowledged that people actually work for much more than merely their personal material gain.

Yet complicating as all these considerations may be, it should be clear that there is nothing in the *core* neoclassical model of individual utility-maximizing choice subject to constraint that would preclude any of them from a theory of social power constructed "on its basis". Merely focusing on individuals does not rule out the critical role of social structures, in particular those constituting social power relationships, in determining individual behavior. Nor is the methodological individualism of neoclassical theory inherently antithetical to understanding such "structuralist" concepts as exploitation and class, as long as that individualism is not taken too radically. And the more complex varieties of individual motivation that are often assumed in social structuralist theory are not themselves inconsistent with the core neoclassical model of individual "utility-maximizing" behavior.<sup>5</sup> If *neoclassical economics generally* avoids acknowledging social power as irrelevant for economic theorizing, it would seem to be because of its particular presumptions about the specific nature of the social constraint structures in which individuals are necessarily embedded, especially in market societies. The consequences are perhaps nowhere more evident than in the neoclassical account of economic inequality, an account that is dramatically incomplete even if it is not totally incorrect.

*Structure and opportunity in the neoclassical theory of economic inequality*



That account rests on a depiction of individuals making choices involving market transactions, especially those of schooling/training and occupation, i.e., "human capital" choices, and those of saving and financial/business investment, or what may be distinguished as "investment capital" choices. Given their income and wealth endowments, people decide the allocation of these for consumption vs. saving, and the allocation of the latter for human and/or investment capital accumulation, and their accumulations of these two kinds of capital then determine their incomes as the sum of the labor and investment capital income portions.

Judging from the numbers of economics students who do so, a particularly easy error to make in looking at economic inequality this way is to suppose that "what it really boils down to" is individual choice: people decide themselves how much of their income to accumulate in human and investment capital, hence their incomes depend on their own choices. But "prior endowments" of human and investment capital are theoretically critical, and empirically and in common sense of prime importance as well, in determining *what choices are available to particular individuals*. Emphasizing the "choice" side of the choice-constraint theoretic in comprehending inequality is a great mistake. Even in theory, people cannot be assumed to be able to afford more schooling/training and investment from savings than their time, income, and already accumulated wealth permit given their basic needs for sustenance, mobility and information and given their access to borrowed funds, itself a close and direct function of their prior income and wealth.

It is a significant advancement in understanding then to acknowledge that *opportunity matters* at least as much as does individual choice. It is a further advance too to acknowledge the importance, in particular, of *family economic background* in providing an individual's "prior endowment": it is most critically their family's behest of human and investment capital to them that constitutes the seed capital with which virtually all people begin their adulthood. (Nor does the existence of universal public education much alleviate inequalities in opportunity due to unequal family background, given the financing of the system by local property taxation, the differential need for people to work during their youth, and the stratification of both the public and private school systems.) Yet even allowing for the primacy of prior endowments (and acknowledging the inadequacy of public schooling to alleviate inequalities of endowments), this standard neoclassical account still falls far short of a full story on inequality.

First, there is, of course, the notorious tendency in the neoclassical mainstream of economics to underestimate the importance of various impediments to markets achieving a state of "well-functioning" sufficient to guarantee individuals a requisite mobility in labor markets (neoclassicals' routine approbation of government regulations and labor unions is the only major exception to this general tendency). Professional associations, for example, by their effects on labor supply serve to raise the incomes of their members while lowering those of other occupations, a reality certainly recognized in neoclassical economics but nevertheless often downplayed in neoclassicals' policy prescriptions. Business power on both sides of the market, i.e., "monopoly" and "monopsony" power, as well as that which is due to information asymmetry, has similar effects and is similarly downplayed. Perennial and systemic unemployment, present in all market economies and



patently the proximate cause of widespread poverty in even the most advanced economies, is simply unrecognized by neoclassicals or else trivialized by theories of "job search behavior". And so on and so forth.

Second, the neoclassical mainstream, by focusing mainly upon behavior in markets, tends to under-evaluate the importance of choices and constraints not directly related to markets per se. People's behavior as consumers and workers -- as opposed to their behavior in consumer goods markets and labor markets -- has been of little interest for neoclassicals. They have tended to miss then the importance of such things as conspicuous consumption and pecuniary emulation for understanding saving and investment behavior in human and investment capital accumulation, or of cooperation among workers on the job for understanding the actual as opposed to the textbook theoretical determinants of wages. The business firm as an organization the internal hierarchical job structure of which might raise such economic concerns as that of segmented labor markets (and the labor market immobilities implied) has been allowed into the neoclassical canon only because it was raised by "new institutionalists" relatively amicable otherwise to that canon.

Similarly, the informational environment in which people must be assumed embedded is generally downplayed also, encompassing as it does mostly activities not directly connected with market transactions. The specific characteristics of education systems, of family and community cultures and sub-cultures, of the mass-mediated culture, and of the workplace as a social and cultural environment, all matter in determining both the alternatives of which individual are aware and the preferences they bring to bear in deciding among those alternatives. Critical in this regard are those social constraint structures, so well described by Pierre Bourdieu [Swartz, 1997], that constitute individuals' *social capital* (networks of social "connections") and their *cultural capital* (the "vocabulary", both verbal and non-verbal, of social informational interaction). (Other forms of "extra-market" capital may perhaps be similarly highlighted, e.g., psychological capital (e.g., self-confidence developed from an individually nurturing environment), political capital or "clout", and so forth.)

While neoclassicals tend to underestimate the critical importance of these extra-market kinds of "capital" for determining the distribution of income and wealth, they also often underestimate or forget the constraining realities of even human and investment capital themselves. Indeed, the nature of all these forms of capital, both market and extra-market, presents not only *opportunities* for investment accumulation but also powerful *constraints* upon the extent of accumulation that may potentially be accomplished: individuals' prior endowments (especially of investment capital per se) may or may not permit them to accumulate much of any of them, given their basic subsistence, mobility and informational needs.

Still, while the downplaying of these kinds of considerations in the mainstream of neoclassicism is aggravating, to say the least, there is nothing about the *core* of neoclassicism that militates against building a better theory of income and wealth inequality that employs it. The individual making utility-maximizing choices subject to constraint (broadly construed, as here) is quite sufficient for developing a theory of economic inequality in which these realities are understood to be fundamental, as they are

elsewhere in the social sciences and in the economics heterodoxy.

*Social power and the neoclassical theory of economic inequality*

But while acknowledging the critical importance of these realities of the social structure of constraints effective upon individuals as decision-makers goes a long way toward an adequate theory of economic inequality, it is still not sufficient. For the basic question remains: where do social structures of constraint *come from*? There are, of course, *naturally* given constraints, but to suppose that natural resources and the laws of nature are all that ultimately matter is to ignore the role of human beings themselves in creating social structures. And acknowledging the role of human beings as the agents of their own history requires acknowledging also the role of social power.

The role of power in creating and maintaining the social structure of constraints to which different individuals are differentially subject must be acknowledged a fundamental element of any adequate account of economic inequality. The constraints constituted in individuals' human, investment, social and cultural capital endowments, and the larger structures that also condition people's decisions about what to do with those endowments, and so determine their potential income and wealth accumulations, are not merely given, as if by nature. Instead, they are enduring constructions of past individuals' and groups' *choices and exercises of power*, not only in the sense that past choices determine present opportunities, but especially in the sense that the choices of *powerful people* dominate over the choices that might otherwise be made in their absence (i.e., were they not powerful) both in the past and in the present.

This constraint structure consists of the totality of the effective laws and associated enforcement mechanisms, and other institutions, customs and culture of the society. To whatever extent these embody a structure of command -- in which some individuals have decisive power over others that the latter do not have reciprocally over them -- it is likely that the society's economic activity in particular is structured by a system of class as earlier described. Detailed accounts of the class structure of the modern market economy are widely available, and this is not the place to elaborate on it. In order to make the point, however, some of the more obvious elements of that system today might be noted here:

-- *Employers' power*, based mainly on (a) major differences in investment capital endowments among individuals and families, and (b) significant unemployment, which together compel the majority to submit to taking commands at work from those who are, on the other hand, enabled by their wealth to own businesses and hence take positions of command in them and to use their positions to reap the profit rewards thereof.

-- *Creditors' power*, based on (a) the acute need for liquidity in market economies, and (b) the major inequality in the distribution of wealth that permits the wealthy to take advantage of others' heightened need for liquidity, thus assuming a role in determining the latter's investment decisions and taking a "cut" in the income proceeds thereof from all borrowers -- businesses, individuals and governments.



-- *Professionals' power*, or what has been called "coordinators" power [Albert & Hahnel, 1981; Wright, 1979], based in (a) wealth inequality, but also especially in unequal endowments of human, social and cultural capital, and (b) the need in modern times, especially in business, for managerial, organizational and technical expertise; this form of power yields high incomes for people in these groups that are taken both from workers in lower positions in the business hierarchy and from the incomes of business owners.

-- *Cultural power*, the disproportionate influence of the wealthy and near-wealthy in the dissemination and "social processing" of information, especially in the mass media (via their ownership and managerial positions, for example) and the education system (by means of their financial contributions and managerial positions in that system), but also in the widespread "pecuniary emulation" of the consumption and life-styles of the affluent by the rest of the population, which is in turn compounded multifold by the mass media biases in entertainment and news content.

-- *Political power*, that which directly culminates in laws and their enforcement mechanisms, resting most importantly on major inequality of investment and social capital ownership and hence of access to decision-making regarding government (by means of, e.g., political contributions, lobbying, media messages, and the threat of "capital strike"), despite some dispersion of political power in the institutions of modern democracy.

Others might add to this list *corporate power* [Dugger, 1989; Korten, 1995; Goodwin, 2000], since the modern private corporation is perhaps the most visible organization in which all of the other structures of power just listed are manifest. Arguably, however, a more accurate way of looking at the place of the corporation in all of this would be to focus on *stockholders' power* [Kelly, 2003] as a designation of the specific people for whose interests the corporate organization is the prime instrument.

Employing the neoclassical core model of individual choice to elucidate these elements of class in market societies is straightforward. Power is exercised by powerful individuals manipulating specific constraints to which other individuals are subject. For example, individual employers command individual employees (1) by enforcing upon them the opportunity costs of failing their direction, selectively deciding those eligible for retention vs. firing, promotion vs. demotion, etc. (this may be done by means of "human resources departments" or other hierarchical or bureaucratic mechanisms, of course, which are themselves directed in the same manner); (2) by manipulating those costs in their business management policies, e.g., in setting up internal job markets and "divide and conquer" wage scales and business structures [Edwards, 1979]; and (3) by influencing public policy appropriately, for example, in assuring weak "social safety nets" and sufficient economy-wide unemployment [Pollin, 2003] that employees' costs of job loss are significant.

Similarly, in structures embodying cultural power at the level of the society as a whole, the mass media and education systems "filter" certain kinds of messages from the stream of those propagated to the public, in a process using mostly employers' power to assure



that the people directly involved conform to "standards" appropriate to those at the peaks of the media business hierarchies. People in the media's public then must submit to the consequently abbreviated and structured variety of such messages, lacking as they do the means of acquiring, much less disseminating, alternative messages -- with more or less appropriate effects following for people's habits, beliefs and preferences, especially those regarding subjects considered "sensitive" by the powerful [Herman & Chomsky, 1988; McChesney, 1999]. Similarly effective "filters" being operative in the education system, importantly devoted as it is to vocational and professional studies (not to mention various distractions and spectacles such as athletics), alternatives to the mass culture are all the more difficult to sustain. <sup>6</sup>

Obviously employers' power structures substantially undergird cultural power structures, and the latter reinforce the former as well by influencing not only those who are "ultimately" subject to employers' power but also those who are involved in the exercise of employers' power in business hierarchies (managers, personnel officers). Without going into further details, similarly mutually reinforcing connections exist among all five of the structures noted above.

Using such means, the powerful also, in effect, bring to bear the efforts of those subject to their power in maintaining and appropriately amending the *larger* social structures of constraint, i.e., those effective at the level of the society as a whole, by creating new constraints, for example, in new laws, institutions or public policies, or altering old ones, e.g., in legal modifications and reinterpretations. Thus power is exerted perhaps most importantly in ways that get its subjects to behave in the interests of the powerful by maintaining and strengthening where possible the formal structures underlying their power positions.

Of course, what all of this is about is the powerful taking material advantage of their positions, an advantage that comes at the expense of those subject to their power. Economic inequality then is inherent in the social power structures of class, indeed some even define class in terms of economic inequality. <sup>7</sup> The view advanced here is that class is best *defined in terms of social power* [Zweig, 2001], but obviously economic inequality closely and directly relates to class, and is perhaps even its most importantly determinant: As the above list makes clear, inequality *undergirds* the class system, understood as a system of power, insofar as it is mainly economic inequality that defines who has the various powers involved and who lacks them.

Inequality is as well the necessary *consequence* of power, since the benefits of its exercise go to those already well-placed in the distribution of income and resources. Each of the power structures involved in the class system noted above serves to "redistribute income" mainly to those already well-endowed with capital, especially investment and to a lesser extent human capital. Note that "income redistributions" and a consequent significant stratification even among those more or less totally lacking power -- i.e., those who are "ultimately" its subjects, or the "working class" itself -- are also implied in this list: Especially in the structures of employers' and professionals' power, economic stratification serves, by "dividing and conquering" working people both at work and in politics, to advance the cause of material benefit for the powerful by reducing labor costs and citizens' political powers.

Aside from the fact that such an analysis of economic inequality acknowledges the logical connections with power structures widely recognized in our society, this "power theory of inequality" also has the advantage of a closer fit with some of the empirical facts of *rising inequality in recent times*. This is not the place to make the argument, of course, but the shortcomings of "straight" neoclassical accounts of rising inequality have been well documented [Howell, 1999; Piketty & Saez, 2003]. At the same time, so too have changes recently in the "balance of class power" due to technological changes, globalization, and the consequent changes in political and economic reality, and the effects on the distribution of wage income and wealth are better described in terms of that changing balance than of such neoclassical hypotheses as the "skills-mismatch" and changing household demographics [Gordon, 1996; Freeman & Katz, 1993; Galbraith, 1998; Burtless & Jencks, 2003].

That much of all this apparently goes missed by the general public as well as by many in more privileged positions (such as economists!) is a consequence not only of the sheer enormity and complexity of the system structuring class in today's market societies but also of the effectiveness of the specific structures of that system. There is nothing quite like economic need in combination with employers' power, in the context of a culture and polity overwhelmingly dominated by the hegemony of the affluent, to induce the requisite quietude among working people -- professionals and even academics included. It is perhaps not that most people are unaware of these power structures and their effects on the distribution of income and wealth -- although it is difficult enough to attain much clarity on them -- but simply that there is so little that can be done about them even in local struggles, given the economic, political and cultural hegemony of the affluent. Note also that academic economics, at least the mainstream neoclassical variety, is arguably itself part of the apparatus of class domination, especially in its contributions to cultural power.

### *Evaluating the neoclassical contribution*

What are we to make of the "neoclassical-structuralist" theory of power in terms of which this class theory of economic inequality is given -- specifically, of what significance is the "neoclassical contribution" to a theory that clearly is first and foremost a structuralist theory? To begin with, to be clear about it, it should be reiterated that the neoclassical contribution here is the particular "model of the individual agent" that is employed, i.e., the model of the utility-maximizing individual who makes choices subject to constraint. There are other models of *the individual* that could be employed instead, for example, a psychoanalytic model might have the individual not really "choosing" at all, at least in some significant spheres of life activity. And there are also other models of *choice per se* than the neoclassical, for example, one in which "utility" is foregone as an analytic category in favor of some other theory (e.g., a psychoanalytic one) of the presumed regularities or rationalities (or irrationalities!) of individual choice.

Granted the neoclassical model of the individual is simplistic, and that for some important purposes more nuanced approaches presumably are preferable. Yet that simplicity is nonetheless precisely what makes it so useful: It allows an intellectually clear picture of the *nexus between* the individual and the structures that condition her



choices: those structures are seen from the viewpoint of the individual herself, they are simply the "constraints" of the neoclassical constrained-choice model. If anything, this facilitates a closer focus on some of the "purely social" dimensions of the structures constituting social power -- as opposed to other possible elements of power structures, for example, "purely psychological" propensities of individuals or groups that incline them to making particular kinds of choices.

A model of the individual that does not allow at all for individual choice could be fit into a "radically structuralist" theory of power, for example, one in which individuals are seen as completely subject to the various forces at work in their own psyches, and these forces are then part of the larger "structure" (which should also include purely social structures as well) that constitutes the social powers some individuals have over others. Yet it is not really clear just what "power" must mean if it is something individuals cannot *choose* to exercise: if anything, choiceless individuals are inherently powerless. A theory of power, it seems to me, necessitates a model of one kind or another of individuals making real choices. The neoclassical one seems to more than suffice for at least some purposes.

I am struck moreover by two additional advantages that would seem to arise from a theory of social power that incorporates the neoclassical core model of individual choice. First, by necessitating that the "unit of social action" be individual agents rather than some social groups or categories of social structure, our theorizing is not so easily restricted to whatever particular such groups or categories may be held dearest by ourselves or others. We are more inclined to explore the relevance of the whole variety of social groupings, institutions and activities in which individuals, in principle, may be involved. Doing so, we may then reach other conclusions than those to which we may have been inclined, but they are likely sounder conclusions. In this paper it was found that economic class and exploitation, are actually phenomena of the *entire social structure*, not merely of the economy per se, much less of the "site of production" (unless one interprets such terms quite broadly indeed).

Secondly, the minimal focus on individual agency of an account of power in which the neoclassical core theory is incorporated keeps to the forefront the *personal responsibilities* that individuals making choices have for their social consequences. This is ironic: the neoclassical tradition is notorious for urging precisely the opposite, that individuals do not or cannot or should not take responsibility for the social consequences of their actions. It is, of course, the whole idea of a theory of power to highlight social consequences, but to do so such a theory must focus squarely on people *making choices* rather than being merely pawns of their self-interest as defined by their social positions. If neoclassicalism inclines one to argue out that the poor have personal responsibility for their own situations, the neoclassical core -- or at least something like it -- is at the same time necessary for pointing out the far greater personal responsibilities the powerful and materially advantaged have to their fellow human beings. That is, in order to be able to say that the powerful have, virtually by definition, the capacity to make choices other than those in their "obvious material self-interest" -- that they bear at least as much responsibility for their impact on others as do the poor for their impact on themselves -- we need a model of individuals making choices.

The neoclassical core model of the utility-maximizing individual making decisions

subject to constraint is certainly a handy such model. Even if the rest of the broader corpus of neoclassicism ought to be abandoned, as we heterodox economists would insist, for purposes of understanding social power the incorporation of that core into the discussion constitutes a valuable contribution for which economists should be happy to take credit.

## NOTES

1. Thus *The MIT Dictionary of Modern Economics* [Pearce, 1992] contains only a single and quite short entry on "market power" -- no others on power, not even "bargaining power". Many, perhaps most, current introductory economics textbooks used in the U.S. no longer even refer to the consequence of monopoly or market concentration as "market power" at all -- Boyes & Melvin, 2006, for example, refer to cartels merely as one kind of "cooperation".

2. In this article, I will be referring to "structuralist" perspectives on social life in general and on power in particular. An excellent source on "structuralist" theories of power in comparison with individualist theories is Steven Lukes (ed.), 1986. I will elaborate further below on what is meant by social "structures". For the moment the main distinction is between individualist social theories in which human phenomena even in social contexts are understood as the product solely of individuals' actions and in which individuals have sole responsibility for their consequences, and structuralist theories in which instead the explanation for individual actions in social contexts is based on factors, especially social structures, that are beyond the individual's influence or control. I am grateful to my colleague Edward Royce, Rollins College Sociology Department, for highlighting and clarifying this distinction for me.

3. This section builds importantly on the work of Bartlett, 1989; Bowles & Gintis, 1990; Bardhan, 1991; and Schutz, 2001. All of these take pains to define social power in terms of the neoclassical core, and explicitly found their analyses on the basis of such a definition.

4. Dropping the assumption of "exogeneous preferences" in individuals is, according to Bowles & Gintis, 1990, a critical part of "post-Walrasian" economics (the other critical part is dropping the assumption of exogeneously enforced contractual claims). I have suggested that the model of individuals making choices subject to constraint may be taken as the "core" of neoclassical economics, regardless of whether it is assumed that individuals' preferences are exogeneous or endogeneous.

5. This is perhaps the place to note the critical work of Michel Foucault, which should not go unmentioned in any general discussion today on the nature of power. A model of power that rests on the neoclassical individual making choices cannot fully satisfy Foucault's methodological requirement that "[t]he individual is not to be conceived as a sort of elementary nucleus, a primitive atom, a multiple and inert material on which power comes to fasten or against which it happens to strike" [Foucault, 1977, p.98]. Yet this article is nonetheless much in keeping with Foucault's strictures, at the least insofar as, first, obviously it conceives the individual as both constituted by and the "vehicle of" power [Foucault, 1977, p.98]; and second, it is moreover consistent with "an *ascending*

analysis of power, starting, that is, from its infinitesimal mechanisms, which each have their own history, their own trajectory, their own techniques and tactics, and then see[s] how these mechanisms of power have been -- and continue to be -- invested, colonised, utilised, involuted, transformed, displaced, extended etc., by ever more general mechanisms and by forms of global domination.... [Such an analysis shows] the subtle fashion in which more general powers or economic interests are able to engage with these technologies that are at once both relatively autonomous of power and act as its infinitesimal elements" [Foucault, 1977, p.99].

6. In recent times moreover, a kind of "divide and conquer" effect on people as citizens has also arisen in the system of cultural power, with the rise of consumerism, and more recently the increasing specialization and even personalization of information and entertainment, taking the division of society to its maximum, the totally individualized media-culture consumer [Kellner, 1995].

7. This seems true of the recent *New York Times on the Web* series "Class Matters" [2005]. See also Kerbo, 2003; and Perrucci & Wysong, 1999, for further discussion of variations of theoretical approaches to "class".

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