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**Emiliano Brancaccio.** Professor of Economic Policy at the Università del Sannio. He is author of articles published in several international academic journals, including Cambridge Journal of Economics, Structural Change and Economic Dynamics, Review of Political Economy. He is author of the textbook “Anti-Blanchard Macroeconomics” (Elgar 2018). He was advocate of the “the economists’ warning” against European austerity policies (Financial Times, 23 September 2013).

Contact: [emiliano.brancaccio@unisannio.it](mailto:emiliano.brancaccio@unisannio.it)

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**Gabriella Pauli.** Graduated in political economy at Università di Roma, La Sapienza and received her PhD in Social Theory and Research at the Dipartimento di Storia, Società e Studi dell'Uomo Università del Salento. She was visiting researcher at the Department of Monetary Economics of the Leeds University Business School and up to 2018 assistant in History of Economic Analysis at the University of Salento. She has carried out research on heterodox economic theory, particularly on postkeynesian, institutionalist and feminist economic theory. She is currently part, as independent researcher, of the European research group on Foundational Economy. She is author of articles published in several academic journals including AG About Gender - International Journal of Gender Studies and H-ermes, Journal of Communication and she is author, together with others, of the textbook “*Economia e luoghi comuni. Convenzioni, retorica e riti*, L'asino d'oro Edizioni, Roma.

Contact: [gabriella.pauli@unisalento.it](mailto:gabriella.pauli@unisalento.it)

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# METHODOLOGICAL INDIVIDUALISM VERSUS CLASS ANALYSIS: THE “GREAT RECESSION” AS A TEST CASE<sup>1</sup>

**Emiliano Brancaccio**

*Università del Sannio*

**Gabriella Pauli**

*Università del Salento*

## **Abstract**

While the mainstream economic analysis relates with the other branches of social sciences in an “imperialistic” perspective, an alternative paradigm of social reproduction can contribute to develop an interdisciplinary approach to political economy. Originated in the contributions of Classical economists and Marx and currently developed by the critical schools of economic thought, the paradigm of social reproduction rejects the individualistic foundations of mainstream economics and recognize social classes and related conflicts on production and distribution as essential elements to make economic analysis consistent with the current reality of capitalist development and crisis. In this sense, the alternative paradigm suggests an interpretation of the recent “Great

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Recession” based on the specific anthropology of consumption of social classes within capitalism and its implications on the pace of aggregate expenditure. Empirical evidence gives support to this interpretation, which also offers some insights about the possible relations between the complex spatial and temporal dynamics of capitalist crisis and the international development of progressive social movements.

### **Keywords**

Economic methodology, imperialism, methodological individualism, class analysis.

### **Resumen**

Mientras el análisis económico tradicional se relaciona con otras ramas de las ciencias sociales bajo una perspectiva “imperialista”, el paradigma alternativo de la reproducción social puede contribuir al desarrollo de una aproximación interdisciplinaria a la economía política. Originado en las contribuciones de los economistas clásicos y Marx y actualmente desarrollada por las escuelas críticas de pensamiento económico, el paradigma de la reproducción social rechaza las bases individualistas de la Economía dominante y reconoce a las clases sociales y los conflictos relacionados con la producción y la distribución como elementos esenciales para realizar análisis económicos consistentes con la actualidad del capitalismo y su crisis. En este sentido, el paradigma alternativo sugiere una interpretación de la reciente “Gran recesión” basado en la antropología del consumo de las clases sociales al interior del capitalismo y sus implicaciones en el ritmo del gasto agregado. La evidencia empírica avala esta interpretación que, también ofrece algunas luces sobre las posibles relaciones entre las complejas dinámicas espaciales y temporales de la crisis capitalista y el desarrollo internacional de movimientos sociales progresistas.

### **Palabras clave**

Metodología económica, imperialismo, individualismo metodológico, análisis de clase.

## Introduction

In the history of social sciences, the individualistic approach in the analysis of human behavior has often been challenged. The unity and autonomy of the “subject” at the basis of methodological individualism has been questioned by alternative epistemological views. According to these alternative perspectives the individual should be regarded as a social construction that develops in continuous coordination with other human beings and cannot even be defined separately from them (see, among many others, Althusser, 1971). Inspired by the latest developments in social psychology, neurobiology and neuroscience (see, among others, Cacioppo & Bernston, 1992; Damasio, 1994), recent research seems to be paying new attention to the epistemological discourse that questions the individualistic view of society and in some cases even tends to an explicit revival of Marxian class analysis.

In sociology, anthropology and social psychology the debate between alternative epistemological approaches is common and the criticisms to methodological individualism are not new (Della Porta & Keating, 2008). More recently some objections to individualism have even touched the current *mainstream* economic theory (Blanchard, 2000; Blanchard et al., 2013). Today the dominant paradigm in economics seems to move away from the rigidly individualistic approach which characterized the original Neo-Classical models of general economic equilibrium. Current mainstream macroeconomics, in particular, tends to admit the existence of group behaviors and strategic interactions (Arrow, 1994). At a closer look, however, the mainstream economic analysis seems to conceive these elements as mere disturbing factors, i.e. deviations from the optimal economic equilibrium resulting from the actions of a myriad of independent individuals who are assumed to be rationally self-interested. Despite recent innovations, then, the epistemological basis of the dominant approach to economics is still individualistic, based on the stereotype of “homo oeconomicus” (Brancaccio, 2011). Mainstream economists, moreover, claim to extend their view of individuals as isolated and selfish agents to all branches of social sciences.

The mainstream approach to economic theory, however, is constantly being challenged by other views. In the history of political economy there are many alternative traditions in economic thought: Marxist, Post-Keynesian, Institutional and so on (Lawson, 2006). These approaches share the use of social class as a major analytical category: while the dominant economic theory adopts an individualistic methodology based on the theoretical device of the “homo oeconomicus”, the alternative theories are similar

in regarding individual actions as inextricable components of the whole social system (Lavoie, 2009). The scholars of the alternative approaches question the anthropological definition of the human being adopted by the mainstream perspective, which seems to ignore the social nature and the class roots of individual decisions so reducing human beings to abstract monads. The connotation of the human being as *disembedded*, displaced out of the history and society, ends up characterizing it as a *fool rational* (Sen 1977; see also Lucarelli & Lunghini, 2012).

In this paper we will refer to an epistemological view which can be called *paradigm of social reproduction*. This alternative approach rejects methodological individualism and goes back to recover the method of class analysis drawn from Classical economists and Marx. According to this view, conflicts between social groups do not represent mere deviations from a hypothetical natural equilibrium which would be determined by the sum of optimal behaviors of single agents; rather, it considers the class struggle dynamics as a constituent factor of the conditions of reproduction and crisis in the economic system. Although this theoretical perspective is not prevalent in academia, we may ask whether it has the heuristic ability to explain economic and social reality and to interpret contemporary historical facts, whether it has favorable empirical evidence and whether it can help to analyze the current evolution of power relations between social classes. The heated debate among mainstream and heterodox economists about the roots of the last international economic crisis offers an interesting case-study to compare individualistic mainstream equilibrium models and class analyses. More specifically, by adopting a social class perspective on the anthropology of spending decisions it will be possible to suggest an alternative interpretation of the so called “great recession” of the last few years (IMF, 2012). Furthermore, as we shall see, this interpretation will also provide some insights regarding the relations between economic crisis and perspectives of international social movements.

## **Mainstream economics: a revival of Benthamian individualistic anthropology**

The dominant economic theory is still on its throne. The “great recession”, started in 2008, took it by surprise, almost completely unprepared, but it does not seem to have inflicted any serious damage. The reputation of orthodox models describing the working of capitalism came out undoubtedly tarnished, but their policy prescriptions continue to be heard in university classrooms and in the political arena. This staying power, how-

ever, should not be overstated. Underneath it, several contradictions are smoldering and potentially undermining the soundness of the existing *conventional wisdom* (Galbraith, 1998). In order to detect these aporias, it is necessary to dig deep into the dominant economic theory, starting from a clarification of the concepts underlying its original nucleus: the *Neo-Classical* analysis.

According to a renowned definition, an economic theory can be defined "Neo-Classical" - or "marginalist" - if it describes the operation of the capitalist system on the basis of the following exogenous data: production technology, the availability of scarce resources and individual preferences (Hahn, 1982). Given the available scarce resources, each person rationally decides to consume or to exchange them in the market to suit her preferences in order to maximize her personal utility. The logic of individual actions is then expressed in terms of what Robbins (1932) defined as a relationship between ends and scarce means having alternative uses and Samuelson (1947) then formalized in the criterion of constrained optimization: i.e., utility maximization of each rational individual under the constraint of his scarce resources. A system which is then ultimately governed by *sovereignty of consumers* (Hutt, 1940).

Through the application of utility maximization criterion, the supply and demand of resources exchanged in the market are set by each economic agent. The sum of individual choices then determines the levels of supply and demand in the market. Neo-Classical economic theory asserts that in a free market economy a "natural" equilibrium is reached when prices equate the quantity demanded to the amount of resources available. Prices will therefore represent indexes of scarcity of resources. Under certain conditions, the greater the relative scarcity of each resource, the higher its price will be. For example, in the labour market the greater the scarcity of labour available compared to its demand, the higher the real wage will be. Market equilibrium is achieved when the real wage rate is such that the quantity of labour demanded equals the quantity of labour available. Then, when the economic system reaches the "natural" equilibrium there will be full employment of resources and real aggregate production will be equal to potential production. In other words, the "natural" equilibrium corresponds to a situation in which prices and income distribution are set to levels correspondent to a full and efficient use of scarce resources and the utility levels of agents are maximized. Income distribution is then passed off as a pure technical and politically neutral result determined on the basis of an indisputable utility maximization process (Graziani, 1993).

This scheme of the capitalist process features every possible variants of Neo-Classical theory, both simple pure exchange models and more complicated schemes

considering capital accumulation: in all these cases the logical foundations of the analysis remain centered on the original poles of the relative scarcity of existing resources and the utility of individuals. The same logic also operates in the modern versions of dominant economic theory, which can be conveniently regarded as the current *mainstream*. These new models add market imperfections, information asymmetries, strategic interactions, social institutions and other sophistications to the analysis, but the basis of the theory are always the same (Brancaccio, 2011).

More than a century after the birth of Neo-Classical theory, the notions of scarcity and utility of single individuals are therefore still considered the cornerstones of the scientific discourse in economics: what is located outside of these boundaries is not a subject of interest for orthodox economists and should not be of interest for social scientists in general terms. A notion of natural equilibrium based on the pillars of utility of independent individuals and scarcity of resources, in short, act as binding theoretical codes and ultimately as *imperialistic arguments*. A view of reality based on the postulate of rational behavior of individual agents who are keen to maximize utility under the constraint of scarce resources is applied to all aspects of life, such as politics, sociology, culture, religion, criminology, anthropology etc. A scientific discourse in the whole field of social sciences, then, can only be defined through these postulates (Boulding, 1969; Stigler, 1984; Fine, 2000). Any alternative perspective in political economy or in other branches of social sciences is relegated to the margin of academia.

In some way, the current methodological framework in economic theory represents a sophisticated revival of Benthamian interpretation of the anthropological model originated in Locke. Bentham's social theory is grounded on the adoption of the notion of utility as the sole scientific method of analysis of society and at the same time the unique conceivable ethical criterion. In the name of utility as index of individual well-being the pursuit of self-interest, and therefore the results of antagonistic solitudes, are considered as engines of collective wealth and social harmony. In this sense, the philosophical system originated in Bentham consists both of methodological individualism, for which the analysis of society must start from the study of individuals considered as monads, and of ethical individualism, according to which everyone is the best judge of oneself. Bentham's utility, in terms of pleasure and pain, could be measured numerically on a scale unique in the sense that rational individuals pursue the increase of pleasure and the diminution of pain. In Bentham's view, the arithmetic of pleasure and pain is also used to make interpersonal comparisons and to aggregate individual utilities into a social utility. This aggregation allows Bentham to develop Locke's view according to which

only *individual* can represent the epistemological point of reference for a correct social knowledge and political action. In so doing Locke first, and then Bentham are recognized, in the history of economic and political thought, as the founder of individual's overall philosophy that is economic liberalism.

Contemporary Neo-Classical economic theory has extended and brought to the extreme fulfillment these philosophical premises: its advocates have reformulated the Benthamian approach in mathematical terms and, by adopting the concepts of energy, strength and position, they have borrowed from physical sciences the idea of marginal utility as a gravitational force leading to a natural equilibrium in which rational individuals maximize their well-being. Walras, Edgeworth and Jevons adopt the metaphor and the analytical techniques of physics leading to a successful penetration of mathematical discourse into economic theory. Jevons (1970) wrote that his equation of exchange did not differ in general character from those which were treated in many branches of physical science. And then he proceeded to compare the equality of the ratios of marginal utility of two goods and their inverted trading ratio to the law of *the lever* where the point masses at each end were inversely proportional to the ratio of their respective distances from the fulcrum. Jevons (1981) regarded utility as an *attraction* between a wanting being and what is wanted, in such way describing it as a gravitational force of a material body depending not alone on the mass of that body but also on the mass and relative positions and distances of the surrounding material bodies. In the same way Walras (1969) invoked the physical realm in economics and defined the *pure theory of economics* as a science which resembled the physics-mathematical science in every respect. Edgeworth (1961) regarded pleasure or utility as the same of energy so that the concept in physics of *maximization of energy* was moved to that of *maximization of utility* in economics. All these authors of the nineteenth century built their theories on the energetic metaphor (Mirowski, 1984) and identified scientific methodology in economics as derived from physics regarded as a mode of explanation useful in *all human experience*.

But there is more. The first neo-classical scholars derived from Bentham the idea that utility was an objectively measurable concept and therefore comparable between different individuals. However, contemporary mainstream economics, rejects the Benthamian view on utility and instead accepts Pareto's idea of a purely subjective utility, a measure absolutely not comparable between individuals. According to Pareto, an individual can order different situations in terms of utility and then he/she may issue an order of his/her preferences, but a comparison of utility between different individuals will never be possible (Pareto, 1906). Therefore, while Bentham would have admitted that a



wealthy individual can have a higher total utility with respect to a poor individual, after Pareto the neoclassical school rejected any intersubjective use of the concept of utility, thus neutralizing any possible use of it to justify policies of redistribution. Contemporary economic theory leads in this way to a sort of epistemological radicalization: it considers the economic behavior of single individuals submitted to mathematical rules deriving from the alleged general human law of utility maximization (Mirowski, 1988) and it never admits a comparison of utility between different subjects. The anthropology of Locke and Bentham is then ossified and radicalized at levels that they probably never could imagine.

### **An alternative theory of social class relations**

An alternative view to the dominant economic analysis is suggested by what can be called-“paradigm of social reproduction”. In this different theoretical context, the goal of economic analysis is to determine the objective conditions under which the capitalist structure of society is able to generate an economic surplus and to reproduce itself and the conditions under which it falls in a systemic crisis of reproduction. Inspired by the works of Classical economists and Marx, during the 20<sup>th</sup> Century this paradigm was renewed by Keynes, Sraffa, Leontief and many other members of critical schools of economic thought. From an epistemological point of view it could find a systemic description in the analyses of social reproduction suggested by Althusser (1971).

The general features of this alternative paradigm can be summarized as follows. Firstly, the methodological individualism and subjectivism of the Neo-Classical theory is replaced by a holistic and objective conception of social reality. From this point of view, not only does the economic system exist prior to and independently of individuals but the latter are in turn influenced by the system in relation to the roles and functions they perform within it. In this perspective, a capitalist economy model is shaped on the basis of objective data that can be produced by direct observation and mainly derived from macroeconomic and intersectorial physical and financial accounting flows. Hypotheses about the behaviour of economic agents are instead reduced to the bare minimum and in any case based on the idea that the actions of individuals depend on the groups they belong to and the roles assigned to each of them in society. A possible implication of this alternative paradigm is the idea that capitalists and workers have different roles and powers in society. Firms only produce in order to

make profits and have no direct interest in satisfying consumption preferences. In this sense, they choose *how much and what* to produce: a *principle of sovereignty of producers* emerges, as opposed to the sovereignty of consumer in Neo-Classical thought. According to this view, the class power of capitalists originates from their prior access to credit for financing production and determining its level and composition. On the basis of this social advantage, under given conditions capitalists can even impose their own choices of production and distribution upon workers. It is important to clarify that the sovereignty of producers only holds if we consider firms as a social group. The strategies of single producers, belonging to one single industry, may face various sort of limitations. The constraints confronting single producers may appear to have originated in consumer's preferences but are in fact the result of conflict among rival groups of capitalists. This implies that a true understanding of economic mechanism can only be achieved by abandoning the analyses of behavior of the single consumer or producer in favor of an approach dealing directly with social groups and classes (Graziani, 1993, 2003; see also Brancaccio, 2008).

In this view, capitalism is no longer seen as a "linear" process that starts from scarce endowments and preferences of sovereign consumers and ends up setting the prices and quantities produced and exchanged; rather, it is considered as a "circular" process: in the theory of social reproduction, the goods produced constitute both outputs and inputs of the system and, at the same time, prices are determined on the basis of the capacity of the economic system to reproduce the social structure of powers over time. In this sense, the reproducibility of the capitalist system is not guaranteed by the mere condition of viability corresponding to a situation in which the economy is capable of generating a physical surplus. It also requires a rate of profit to be sufficient to maintain the solvency condition of capital. As a result, the reproducibility of the economic system is not just defined in the same way as the technique of production, but even so through the relationship between industrial and banking capital and, more generally, through the state of the balance of power between social classes. As a part of the alternative paradigm, neoclassical pillars of utility and scarcity thereby lose their scientific relevance to the benefit of the alternative concept of "reproduction" of the social system. This is the first, basic line of demarcation that divides the theory of reproduction from the neoclassical theory.

This critical paradigm denies any importance to the concept of "natural" neoclassical equilibrium which is ultimately determined on the basis of the maximization of an utility function under the constraint of scarce resources. In the alternative approach,

the natural equilibrium concept is rather replaced by *the conditions of material reproduction* of the system meant in both economic and political dimensions. Moreover, this different conceptual framework implies that the concept of “efficiency” assumes deeply different meanings depending on the paradigm in which it is to be situated. The dominant theory conceives efficiency in neutral and engineering terms of minimization of costs of production and maximization of individual utility. Under certain conditions this optimizing behavior could well match the natural equilibrium corresponding to both full employment of labor and available resources within the economy. However the alternative theory gives efficiency a finer meaning. In fact, the alternative paradigm admits the possibility of a firm to regard the technique which helps to minimize production costs as “efficient” at a first approximation, but it warns that this form of micro-economic rationality does not imply the “best” utilization of resources at the macro level: at a wide-system level in fact, the minimization of the costs of each unit of production can easily coincide with a situation of crisis and mass unemployment. But there is more. Just in relation to the difference between individual logic and systemic logic, the concept of *efficiency*, as part of the alternative paradigm, can play further significance by going beyond the scope of mere production of goods. Finally in this context, the only order of power that can be defined efficient is the one able to self-replicate. This capacity for self-reproduction has to envisage the ability to resolve the contradictions fueled by crisis and mass unemployment even by means of hegemony and, ultimately, of coercion (Althusser, 1971).

At this point, the consequences of the shift from one paradigm to another should be clear. According to the alternative view in a capitalist regime there is no tendency towards full employment of labour and other productive resources: a real logical chasm separates the concept of efficiency at micro level from efficiency at macro level. Furthermore, and more generally, the definition of “efficiency” can be exalted as a category in *politics*, measuring the power struggle among different groups, such that being permanently deprived of any aura of pure technical neutrality. Therefore the *condition of reproduction* of the economic system is never simple technical repetition of goods and services production, but rather *production and reproduction of social class relations*.

The collapse of the pillars of scarcity and utility and their substitution with the category of social reproduction, therefore, allows to develop a keener understanding of the concept of “efficiency”. For its structural features, this alternative view opens new bridges between political economy and all other branches of the social sciences which adhere to a non-individualistic epistemological approach.

## Immanence of class struggle and economic crisis

The paradigm of reproduction and the mainstream one seem therefore incompatible: the first one identifies class conflict as inherent in capitalist dynamics, while the second, based on a concept of general natural equilibrium as a result of individual utility maximizations, removes it from economic analysis. However, it's interesting to notice that in recent years studies on conflicts between groups, and ultimately between social classes, have made inroads within the walls of the mainstream economic theory. Just think of Olivier Blanchard, former chief economist of the International Monetary Fund, whose macroeconomic models are not based on the behavior of individuals but they directly arise from the analysis of social aggregates such as labor unions and large companies with market power (Blanchard, 2000; Blanchard, Amighini, Giavazzi 2013).

By admitting the existence of social groups in conflict with each other, some mainstream authors seem to make the dominant economic theory closer to the reality of contemporary capitalism. This innovation, however, should not be interpreted as a rapprochement between the two existing economic paradigms. In fact, between the alternative approach and the mainstream view of Blanchard and others there is a substantial difference. For the latter, the existence of social aggregates like unions and big companies represents a market "imperfection" that, if removed, would allow to get a better use of productive resources: by reducing the power of unions, for example, it would be possible to compress the money wages and prices and thus to increase real wealth, then aggregate expenditure, production and employment up to the fateful "natural equilibrium". For the alternative theory, by contrast, the opposition between social groups does not represent a mere imperfection, but it is a factor inherent to the capitalist mode of production. In this perspective, it could be said that class struggle is an immanent fact which can never be removed: it rules even *when there is no consciousness of it*. According to this interpretation, the composition and the absolute level of production and employment are themselves a result of class struggle, and have nothing to do with any concept of natural equilibrium (on the comparison between mainstream and alternative approaches, see also Brancaccio & Califano 2018).

Can we even draw from the idea of immanence of class struggle an explanation of capitalist crisis? This possible nexus has been widely studied in the critical traditions of economic thought. In particular, Marxist scholars precisely recognize the ultimate expression of the contradictions and instabilities of capitalism in the antagonism between social classes. In this line of thought, a typical example is the well-known Marxian thesis

sometimes synthesized in the concept of “under-consumption”: according to it the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit (Marx, 1894). This view can be summarized in the idea that competition forces capitalists to innovate and reorganize production in order to increase labor productivity and reduce real wages; the resulting gap between the productive capacity of workers on one hand and their income and ability to spend on the other, creates the conditions for a drop in demand and a crisis of overproduction. This interpretation has been developed by several members of Marxist tradition and other critical schools of economic thought (Dobb, 1939; Baran & Sweezy, 1966; see also Kalecki, 1939).

### **The anthropology of consumption of social classes and the capitalist crisis**

The Marxian interpretation of capitalist crisis based on the contradiction between the growth of productive forces and the restricted consumption of workers is grounded on the idea that workers and capitalists have different propensities to spend their incomes. When power relations between classes are in favor of capitalists, then labour productivity increases while real wages remain stagnant or even decline. In this case there is a shift in aggregate income from wages to profits. This shift has a relevant impact on the whole economic system. To grasp this connection it must be emphasized that workers and capitalists have different habits in the consumption of wages and profits, respectively. Empirical evidence shows that the average percentage of wages destined to goods and services is greater than the average percentage of profits used for the same purpose. This means, for example, that if a hundred euros is transferred from the pockets of a worker to that of a capitalist, a higher percentage of those hundred euros will be saved rather than consumed. In economic language, we can say that workers have a higher propensity to consume their wages with respect to the propensity of capitalists to consume their profits. This assertion is clearly confirmed by empirical evidence. For example, data from 1960 to 2007 show that the elasticity of aggregate consumption with respect to wages is much higher than the elasticity of aggregate consumption with respect to profits in all the countries examined: in Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxemburg, Nether-

lands, Norway, Portugal, Spain, Sweden, United Kingdom, United States the difference ranges from 39 to 61 percentage points. This means that a shift of income from wages to profits provokes a drop in consumption and aggregate spending. (Brancaccio et al. 2010 on data by Hein & Vogel, 2008).

On the basis of this evidence, then, it can be said that capitalists tend to save their profits more than workers save their wages. As a consequence, any shift in income distribution from wages to profits will provoke a drop in aggregate spending. Whereas it cannot be considered exhaustive of the Marxian theory of crises (Sweezy, 1942; Clarke, 1994; Easterling, 2003), this view has the merit to link the typical distinction between social classes based on relations of production with some anthropological differences between them in the sphere of consumption (on this anthropological nexus between class and consumption, see also Veblen, 1899; O'Hara, 2000).

This interpretation of the spending decisions of capitalists and workers can be compared with the anthropological studies on consumer behavior of members of a given social system. Especially since the eighties, anthropological literature has offered relevant contributions for the study of consumption (see, among many others, Miller, 1995; Carrier & Heyman, 1997; Graeber, 2011). In particular, it has provided valuable elements of analysis of typical consumption patterns of pre-capitalist societies or social realities situated at the margins of the capitalist process (see, for example, Pauli, 2011; Griffin et al. 2011). A common denominator of these social systems can be found in the fact that in pre-capitalist contexts a higher propensity to consume income seems to be typical of higher social groups and, ultimately, of the ruling class. A higher level of consumption relative to disposable income is then interpreted as a higher social status index. A higher proportion of income spent on consumption does not, however, represent only a swank factor of higher social positions: in other words, a high propensity to consumption is not a mere signal of power. In pre-capitalist societies the greater propensity to spend incomes seems to represent a real constitutive factor of the role of the ruling classes in the social structure. The expense of the dominant groups, in fact, plays the technical function of recirculate income and thus ensure the restart of the production process. We could say, taking the notion of *dépense* – dissipation - suggested by Bataille, that in pre-capitalist systems the surplus expenditure by the ruling class regulates the conditions of reproduction of the whole social structure (Bataille, 1949).

From the point of view of anthropology of consumption of different social groups, therefore, the transition from a pre-capitalist social organization to a capitalist regime of accumulation determines a reversal of positions of their respective propensities to

spend. In the transition from one to the other social form of production, the share of income consumed by the ruling class is drastically reduced while the shares consumed by the lower classes grow in relative terms. The reason is that the capitalist class identifies her social role in saving and accumulation instead of spending and dépense: an anthropological change in consumption is then at the basis of the tendency of capitalism to alternate booms and depression and helps to explain some of the reasons of the extreme power and fragility of this mode of production.

As we shall see in the next section, the interpretation of capitalist crisis based on the specific anthropology of consumption of different social classes within capitalism can also be proposed as a possible alternative explanation of the recent international “great recession”.

## The “Great Recession” as a test case for alternative paradigms

The “great recession” (IMF, 2012) that broke out in the summer 2007 and turned into a deep crisis in 2008, has represented a real test for the economic theory and policy: the admission of alternative explanations for the economic crisis has been an emblematic example of the pluralism and diversity in economic theory and epistemology (for a collection of heterodox interpretations of the crisis, see Brancaccio & Fontana, 2011).

In this respect some economists believe that the *internal* mainstream debate can draw to a convincing interpretation of the great recession and of the economic policy measures put in place to cope with it. Some figures in academic field dare to think that the discussion amongst mainstream scholars is in itself sufficient, and any other additional interpretation is neither necessary nor sufficient (see, among many others, Tabellini, 2009). For other authors, however, the dominant economic approach appears inadequate to give a valid interpretation of the crisis because of, among other things, its inability to analyze the interactions between class struggle and capitalist instability. In order to analyze the debate among economists on this subject, in what follows we will describe a typical mainstream view usually called the “financial interpretation” of the great recession, and a criticism of it based on a revival of under-consumptionist theory synthetized in the idea that the slump was favored by “a world of low wages”.

The “financial” interpretation of the great recession has widespread support in mainstream circles: its basic idea is that the crisis which started in 2007-2008 originated in the financial sector and only later spread into real economy. According to

this view private banks, especially the Americans ones, were the main culprit of the economic crisis. Thanks to financial liberalization, banks increased their debts towards customers and at the same time granted loans to non-creditworthy agents. Then banks faced up with several insolvent borrowers and in turn they were not able to honor debts previously contracted with customers. When uncertainty on banks behavior and the fear of their failure spread and each bank was forced to increase currency reserves to meet any requests for reimbursement. The result was a "credit crunch": instead of lending money, banks preferred accumulating capital in order to avoid insolvency in front of their creditors. But after a while the blocking of loans resulted in an increase in interest rates and a related fall in investments, aggregate expenditure, production, employment and incomes, with a consequent further increase in the insolvencies. The crisis, in this way, was propagated from the financial to the real sector. According to this view, the great recession could have been avoided by promoting a system of rules which would prevent excessive bank indebtedness and could be solved through liquidity injections by central banks in order to compensate the effects of bank credit restrictions. This narrative does not require any reference to social classes: the protagonists of the story are individuals that be grouped into neutral categories of families of savers and borrowers, banks and firms. In this view, the economic crisis is reduced to a mere technical problem, manageable with technical tools (Blanchard, Amighini, Giavazzi, 2013).

An alternative interpretation, promoted by the members of the critical schools of economic thought, suggests that the great recession could be interpreted as the "crisis of a world of low wages" whose causes must be rooted in international structural changes in social relations and not simply in monetary and financial problems. According to this view, even though the financial interpretation shows some elements of truth, it does not capture other fundamental aspects of the crisis. In particular, it should be further questioned on the reasons *why* many borrowers were at some point insolvent. A possible answer, according to the alternative view, focuses on an increasing volume of debts in a phase of low or zero income growth for the majority of population and especially for workers. The insolvency of millions of people in several countries may therefore have been fueled by the fact that debts were growing while incomes - especially wages - plodded.

If we take into account the gap occurred between debts and increasing stagnant labor income, the explanation of the financial crisis can be considered more consistent. Furthermore, according to this interpretation wage stagnation is in itself a factor capable of aggravating the crisis beyond the problems of debt repayment. To this



regard, critical economists focus primarily on structural changes in social relations and in income distribution occurring in many countries over the last thirty years. During this period, they point out the relevance of an extensive process of deregulation of financial markets and labor markets. These liberalization processes have increased freedom of action and movement of capital and have therefore intensified international competition between capitals; this in turn has resulted in a reduction in the legal and social protections of workers. Transformations in the balance of power between labor and capital during the last thirty years have therefore meant that productivity growth generated by technological progress and by the intensification of working time and efforts, has only favored capitalists. In the face of technical progress and the intensification of working time generating an increase in hourly labor productivity, an equivalent increase in hourly real wage is not followed: the output capacity of workers has grown continuously while their spending capacity has not increased, which means that labor productivity gains have been largely offset by capitalists. As a consequence, there has been a prolonged shift from wage shares to profit shares of aggregate income. Among the many examples in this sense, we can see that between 1975 and 2015 Italy, United Kingdom, France, and United States the wage share fell by about 13, 12, 7 and 4 percentage points, respectively; between 1991 and 2015 in the unified Germany the wage share fell by 4 percentage points and in the countries which later joined the euro the wage share fell on average by 3 points and half (Ameco database European Commission).

According to this view, the shift in income distribution from wage shares to profit shares can be seen as one of the reasons for which we are facing a decline in demand for goods and services, and therefore also in production and employment. We have seen before that social classes show different habits in consumption, with workers who tend to spend shares of their wages much higher than the shares of profits that capitalist use to finance consumption. This means that deregulations of the last thirty years and the consequent shifts of income from wages to profits have entailed that a growing share of income has been saved rather than spent. As long as it was possible to increase expenditures financed by debts, this upward trend of unspent incomes was at least partly mitigated. But when insolvencies exploded, the economic contradiction of an increasing income share accruing to a social class reluctant to spend manifested itself very clearly. This resulted in 2008 in a huge slowdown of aggregate expenditure, output and employment in several countries. The Great Recession may have been favored, therefore, by the outcomes of last three decades of struggle between antag-

onistic social classes which, by their structural features, have different approaches to spending.

The role of class struggle and related changes in income distribution among the determinants of the great recession could even be quantified: it is possible to show, for example, that in the last three decades in the countries of the current Euro-12 area, a continuous shift of aggregate income in favor of profits consisting of a drop of eleven percentage points in the wage share has contributed to keeping actual GDP several percentage points below a hypothetical GDP which would have been reached if distribution had not changed (source: Brancaccio et al. 2010 on data by Stockhammer et al. 2009).

### **Economic crisis and crisis in social mobilization: a possible interpretation**

The interpretation of the capitalist crisis based on different propensities to consume of workers and capitalist cannot be considered exhaustive: even its own advocates regard it as an important co-factor of the great recession, but not as the sole determinant. However, that interpretation highlights a fact hardly controvertible: the partition of capitalist society into opposing classes is evident not only in terms of the relations of production but also from the point of view of spending habits, which accentuate the instability of this mode of production. This finding clearly supports an anti-individualistic epistemological approach to political economy and gives support to the criticism of the dominant economic theory. The objective reaffirmation of the division of contemporary society into antagonistic classes of capitalists and workers, however, raises further crucial questions. Nowadays, in fact, the existence of a working class appears undisputed in objective terms, but at the same time there appears to be no sign of life from the point of view of its political subjectivity. The long season of labour and financial deregulations and the consequent international collapse of the wage share of aggregate income is one of several indicators of the complete evanescence of a working class political subjectivity.

Some studies suggest that it is necessary today to look at the deep transformation of social structures in contemporary capitalism to better understand the changes of collective identities as well political mobilization of social aggregates. Despite the growth of inequality can be clearly synthetized in the fall of the aggregate share of income paid to workers taken in general terms, the social process of individualization, the end of the organized working class and the reduction of the worker to lonely and

desperate monad who every day brings together pieces of molecular income seem to prevent any possible political protagonism of a general working class (Bauman, 2000). It is not a coincidence that current social mobilizations look like *a fragmented patchwork, multiclass* rather than *single class*, with participants coming from multifarious social backgrounds. With these levels of fragmentation, however, it seems no easy to develop collective identities able to face the challenges of constructing new political subjects, mobilizing limited resources and influencing a very closed political system (Della Porta, 2015).

An interesting suggestion to try to interpret the evolution of social mobilization has been proposed by Della Porta (2016). Her basic idea is to “connect literature on social movements with (especially Marxist) approaches to the political economy of the neoliberal crisis”. The purpose of this exercise is to analyze “some recent contributions on the different temporality and spatiality of capitalism in order to single out new tool-kits which could help in the analysis of the structural conditions for protests”. The declared attempt is to bring renewed attention to the “class bases of protest” (Della Porta, 2016). In our view, this proposal of research on social mobilization based on the recognition of the complex articulation of temporality and spatiality of capitalism could be particularly promising. This approach can be regarded as irreducibly antagonistic with the linear vision of time typical of mainstream economic analysis, while it seems in tune with the interpretation of the capitalist mechanism in terms of social reproduction. Furthermore, it seems to present various points of contact with an epistemology of social sciences that seeks to promote a non-naive vision of the “time’s arrow” (Hodges, 2011).

Della Porta’s suggestion could also be interpreted and in some way extended in order to see whether the analytical framework that we have described in this work can contribute to an interpretation of the spatial and temporal complex dynamics of social and political mobilization in times of capitalist crisis. In this respect, it is important to clarify that spatial and temporal differences in capitalist dynamics also intersects with some general regularities. For example, it may be interesting to note that current production and reproduction of social class relations seem to follow the same logical path in several countries, which prolongs the decline in wage shares and exacerbates the tendency towards further crises. In fact, as we said before, the path of wage shares is similar in all the countries examined, and more generally in all the so-called advanced economies. This tendency towards international uniform trends in income distribution can be considered as a typical sign of what Marxists define “international capital

centralization" (Marx, 1867; Hilferding, 1910; Brancaccio & Fontana, 2016) and today is usually called with the simpler term of "capitalist globalization": economic integration among countries increases capitalist competition, promotes deregulations, then concentrates capital and lowers wage shares on an international scale.

In light of this trend, we could ask if the international centralization of capital tends to create convergence not only in wage shares but also in real wage dynamics, and therefore if it makes working and life conditions of people located in different countries more uniform. If so, it could indeed find support the old Marxist idea that globalization, and the associated trend towards centralization of capital, should foster a growing convergence between material conditions of reproduction of the working class in different countries, and thus it could facilitate the construction of common social and political movements on a transnational basis. The answer to this question, however, is not necessarily positive. For example, let us consider the case of the European Monetary Union. During the life of the euro area there has been a significant process of market integration and capital centralization. Working conditions and wage trends, however, did not record a corresponding convergence between countries. It is important to note that from 1999 to 2013 the variance in real wages between the various member countries of EMU has grown from 0,015 to 0,080, with a surge following the 2008 crisis (data OECD 2014). The European case seems to show that the processes of international economic integration and related centralization of capital, as such, do not necessarily lead to greater uniformity of working conditions and real wage trends in the various countries, and therefore not necessarily they generate conditions and political consolidation of mutual recognition between workers from different countries.

From the point of view of social reproduction theory, this evidence can be interpreted in two ways. If one adheres to the traditional Marxian schemes of reproduction, then he/she must remain faithful to the canonical idea that in the long run international capitalist integration promotes a convergence in distributive shares, real wages and working class conditions. According to this view, the increase in real wages variance within the EMU could only be considered as a temporary phenomenon, in any case not generalizable. However, if this traditional conclusion should find more unfavorable empirical evidence, then one should consider the possibility of a change in the theoretical framework. In this sense, it could be possible to consider an updating of Marxian schemes of reproduction which admitted process of divergence between wages and material reproduction conditions of social classes. The growing wage variance within the European Monetary Union would become, in this view, not an exception but an example of a

more general movement of transactional capitalism towards territorial divergence and working class potential fragmentation.

During these years of economic crisis progressive social movements have neglected a deep study of capital developments and their impacts on social relations between and within social classes as well as on gender and class relations. An attempt to overcome this gap is now underway and the works of Della Porta (2016) move in this perspective. In social movements studies different interpretations on the class roots (or rather not-class roots) of the recent protests in time of crisis are flourishing. At the same time, the interpretations on the *political* relevance of these multifaceted aggregates to restart the class struggle are multiple and sometimes conflicting. In our view it should be necessary to consider more into the analysis of the social movements the objective international tendencies of capital, in an attempt to better understand the way in which spatial and temporal complex dynamics of capitalist processes shape class relations. This renewed materialist framework could even help for the development of a more *conscious* internationalist, progressive political action (on this point see, among others, Brancaccio 2016).

## Conclusions

The ongoing debate in the aftermath of economic crisis shows that several voices inside mainstream lines of thought support the thesis of a link between increasing inequalities, drop in aggregate expenditure and economic crisis. Some of these contributions add that this link should be considered as a “structural” and “long-term” nexus (Fitoussi and Stiglitz, 2009; IMF-ILO, 2010). This trend could be regarded as the symptom of a possible influence of critical schools of thought in the international debate on the economic crisis. It must also be said, however, that the way mainstream analyses approach this argument presents some internal contradictions. Suffice it to say that mainstream models seem unable to derive a convincing explanation of the different consumption habits of different social classes. In some way, the neo-classical roots of their macroeconomics do not allow mainstream economists to conceive consumption decisions of workers and capitalists as the outcomes of the respective social structures in which they are implanted. It is no surprise that when the critical economist Piero Sraffa talked about consumption decisions in terms of historically

and perhaps anthropologically determined habits and customs, his neo-classical opponent Frank Hahn was only able to reinterpret such a complex thesis in the misleading terms of utility maximization of single individuals (Hahn 1985). Furthermore, mainstream models are based on a neo-classical conception of "natural equilibrium" which rules out the idea that any change in aggregate demand could have effects on "long term" output and productive capacity. We are then faced with an interesting paradox: distinguished mainstream economists propose interpretations of the crisis that do not seem easy to reconcile with the theoretical visions that they have long advocated, and which are instead compatible with alternative models belonging to the paradigm of social reproduction.

This is one of the reasons an alternative paradigm based on social classes and class struggle could be considered as a necessary epistemological change in order to make economic analysis consistent with the current reality of capitalist crisis. Critical perspectives recognize social classes and related conflicts in production and distribution as essential elements of economic analysis, restoring economic discipline to its political dimension. In the case of the recent economic crisis, while the mainstream approach focuses on an interpretation in terms of "financial" determinants and "subjectivist" methodology, the alternative paradigm suggests a different view in terms of objectivism, in which a non-negligible role is attributed to "real" and "social" determinants of recession such as disparities between social classes and their different habits in consumption. A nexus between economic and political analysis can also be found in the fact that alternative, class analysis of social reproduction also offers some evidence to examine the possible impacts of current capitalist dynamics on progressive social movements: international market integration and capital centralization, in particular, seem to favor international income distribution convergence but also real wage divergence, a complex spatial and temporal trend of capitalist dynamics that should prompt a thought for all those who wish to contribute to a reorganization and relaunch of progressive social struggles.

According to the alternative paradigm of social reproduction, then, no daring hypothesis on utility or heroic assumption about rational and maximizing behavior of individuals is required to analyze the dynamics of contemporary capitalism. Classes and social conflict matter and should regain their epistemological primacy in order to return economic analysis to its *political* dimension: that is, to Classical *political economy* and its Marxian *critique*.

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