For Soc Econ (2007) 36:17–27
DOI 10.1007/s12143-007-0005-z

"Bad" Decisions, Poverty, and Economic Theory: The Individualist and Social Perspectives in Light of "The American Myth"

John F. Henry

Published online: 24 July 2007
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Abstract Social outcomes are analyzed either by placing responsibility for those outcomes on the individual or to locate the cause in a specific social factor – discrimination. Here, I argue that individual decision-making cannot be the cause of poverty, illustrative of one outcome, and that commentary specifying a particular social factor is insufficient to address the fundamental, underlying cause of poverty. Rather, one must examine the nature of the economic system that lies at the root of such issues. In the process of developing the argument, it is shown that the individualist explanation of poverty is linked to the neoclassical framework, and that this individualist explanation is a product of the (capitalist) economic system itself which then induces an ideology both privileging such an explanation and preventing the development of satisfactory theory that would inform proper policy. An example of this point is drawn from the 1960's "war on poverty" program.

Keywords Decisions · Poverty · Economic theory · Individualist · Social

In a recent book, *The Working Poor* (2005), David Shipler captures the essence of a theoretical issue that has drawn the attention of institutionalists (and others): The relationship between the individual and society. Is the individual primary–or is society? Does the individual shape society or is society the molding force? Can we remake society without first remaking ourselves? Or to remake ourselves must we first remake society?

Shipler succinctly lays out the central question in the context of poverty. The "American Myth" argues that anyone can escape from poverty through the dint of

A version of this paper was presented at the April, 2006 Association for Institutional Thought Conference, Phoenix, Arizona.

J. F. Henry (✉)
Department of Economics, University of Missouri-Kansas City, 5100 Rockhill Road, Kansas City, MO 64110-2499, USA
e-mail: henryjf@umkc.edu

individual effort. This effort revolves around two elements: hard work and good decision-making. (One could add thrift to this list, but, for the purpose at hand, thrift can be viewed as a subset of decision-making.) As stated by President Bush when announcing his first cabinet in 2000, “people who work hard and make the right decisions in life can achieve anything they want in America” (in Shipler 2005: 5).

Of course, Bush was not the first to articulate this position; it is an aspect of the Protestant Ethic and contains a distinctly moral assertion. To succeed (usually meant in the context of income) is good, and success is determined in the main by these two factors. Hence, anyone not succeeding-the poor-are morally deficient in that they are lazy and/or make bad decisions. One also observes a merit-based reason for success in that it is the individual who is responsible for outcomes, and outcomes then are a measure of individual merit.

The “Anti-Myth” asserts that societal factors are responsible for poverty. Racism, sexism, corporate power, etc., all contribute to the reason why individuals fall into this state. The individual is buffeted about by social forces over which she has no control and the result is a social ordering in which some succeed, others don’t.

Shipler takes the middle ground in this debate (though emphasizing societal factors), stating, “each person’s life is the mixed product of bad choices and bad fortune, of roads not taken and roads cut off by accident of birth or circumstance. It is difficult to find someone whose poverty is not somehow related to his or her unwise behavior–to drop out of school, to have a baby out of wedlock, to do drugs, to be chronically late to work. And it is difficult to find behavior that is not somehow related to the inherited conditions of being poorly parented, poorly educated, poorly housed in neighborhoods from which no distant horizon of possibility can be seen” (6–7).

Here, I argue that bad decision-making cannot be *the* cause of poverty. Further, to argue that bad (or good) decisions are the cause of any negative (positive) consequence is to argue a position similar to that of neoclassical economic theory, a theory that rests on individual behavior within a choice-theoretic framework. Further, this individualist perspective on the underlying cause of poverty is itself a consequence of the transition to capitalism, a social system–in mythical form–that neoclassical theory takes as its standard in establishing the framework within which the theory unfolds.

Why Decisions Cannot Be “Bad”

There are two reasons why individual decision-making cannot be the fundamental basis of poverty or any other social consequence. A bad decision requires knowledge of consequences prior to the making of the decision. Were I to engage in theft but not be discovered as the thief, no bad consequences would befall me (save, perhaps, the perturbations produced by a bad conscience). Were I to be caught in the act, I would be punished, perhaps sent to jail; I clearly would have made a bad decision to steal, but only because the theft was detected. In the first instance, however, the decision was exactly the same, but it would not have been a bad decision as no negative consequence would have occurred.

Theoretically, then, the first problem with the position that bad decision-making is a cause of poverty is that it eliminates time from the argument, substituting the ex-

post consequence for the ex-ante decision. Essentially, for a *decision* to be bad requires that the decision-maker know *with certainty* the outcome of that decision before it is made. However, in a world where historical time exists, this is impossible. One cannot know what the future brings, as that future is dependent on a multitude of actions taken in the present; any individual cannot know how these actions will work themselves out to produce the observed results. Even probabilistic calculation is of little or no help in this regard as such a calculation, to be taken seriously, requires knowledge of outcomes. Hence, the first issue is that of the problem of consequentialism, which is at the heart of Jeremy Bentham’s hedonistic calculus: for Bentham’s theoretical system to hold, individuals must know not only the effect of their actions, but also the effects of actions of all others within the collection of individuals making up the aggregate. It was precisely this point that Keynes critiqued in both an undergraduate paper at Cambridge and his *Treatise on Probability* on the path to his more developed criticism of neoclassical theory in *The General Theory* (see Skidelsky 1986: 151–4).

The second problem, linked to that above, is of an empirical nature. Decisions, while they may be made at the individual level, are not made in a social vacuum. The same decision will (or may) produce quite different results depending on the social circumstances that surround the decision-maker. While individuals surely exist, they are not socially isolated entities but, rather, socially constructed (or socially constrained) individuals.

For example, though the issue is much more complex than commentators usually would have it (see McLanahan and Kelly 1999), it is claimed that one of the reasons women, in particular, find themselves in poverty is childbirth out of wedlock. In Shipler’s study (and others), great emphasis is given to this variable as an explanatory factor. Pregnancy obviously results from the decision to have sexual relations, and sexual relations are enjoyed by individuals occupying every niche within larger society. Should a young woman from a high-income family become pregnant, the outcome will not (usually) be disastrous. She may secure an abortion (most likely performed by a competent physician), visit Aunt Eleanor in Nevada for several months and return to resume her normal activities, or find some alternative arrangement to deal with the situation in a way that produces few, if any, negative long-term consequences. But, any such arrangement requires a set of social mechanisms to assure as painless an outcome as possible. Given her entry point into this process, access to those mechanisms is more or less assured.

A woman from the other side of the tracks has a different entry point. She is much more likely to drop out of school, marry the male who impregnated her, find herself divorced 5 years later with two additional children to support, take a minimum-wage job given her skill levels, and replicate the impoverished existence that established the basis for her situation at the beginning of the process.

In the first example, the decision to engage in sex was not a bad decision, but was surely so in the second example. The consequences were different, but the difference was based on the individual’s social position and surroundings. And it was bad in the latter case because the woman was already disadvantaged. One could say that poverty breeds poverty (no pun intended), but this does not explain poverty itself.

People, then, can only make decisions. Whether those decisions result in good, bad, or indifferent outcomes depends on circumstances, the decisions of others, and

various factors over which the individual has no (or little) control. We all make decisions that could result in bad consequences. Whether such a result obtains cannot be determined at the point when a decision is made.

Relation to Neoclassical Theory

Neoclassical theory is pervasive. Rather, one should say that theory predicated on individual actions is pervasive and neoclassical theory is one dominant form of this perspective. The individualist approach informs our ideological perspective, permeates thinking on matters of theory and policy, and generally dictates our understanding of perceived reality. Essentially, the individualist perspective so conditions our thinking that it hinders us from seeing the interplay between the individual and society and precludes questions pertaining to that interplay from even being asked. Regardless of one's position on the validity of neoclassical theory and its variants in other fields of inquiry, it must be agreed that this general view has great influence in determining our positions on important matters-including the underlying explanation of poverty. "Bad decisions" conforms to this perspective.

Neoclassical theory can clearly be critiqued on the same grounds as the general criticism of the individualist approach above, but one can now be more specific. In the neoclassical system, individual optimizing agents go about their activities by choosing the outcomes (bundles of goods, combination of inputs, etc.) that make them as well off as they can be, given the constraints (money income, prices of inputs, technology, etc.). Outcomes, then, are predicated on non-coerced individual choice.

Suppose we observe a poor individual. Since a worker is free to work as many hours as he or she chooses, and since full employment is guaranteed by assumption, such a person has chosen to be poor: the marginal disutility associated with the work effort is greater than the marginal benefit of an additional dollar's worth of income (or leisure is preferred to work), and that individual finds herself optimizing her position by working little and receiving an equivalent low income. And, in a full employment environment, however few hours that are worked (if any at all) still represent full employment because the number of non-work hours is a voluntary, personal decision. We are confronted by a lazy individual who, nevertheless, ends in an optimizing position even though that position is one of poverty.

Or, if this individual's low income is associated with a low skill level, it is argued that he has chosen not to invest in human capital through securing a college degree or vocational training, because, given his utility function, the value of expected returns on that investment is insufficiently high to warrant the expenditure of time, money, and energy spent in securing that level of skill. But this is an individual decision, and, given the underlying utility function, all one can say is that this person may have chosen unwisely–or not.

True, it is technically correct that one cannot argue that decisions that result in poverty are "bad" from this perspective (except in the sense that they are decisions resulting in non-optimal, equilibrium outcomes), as no value judgment can be placed on any such decision. However, it can be inferred that individuals without the "proper" work ethic will find themselves in poverty, while those imbued with the

Protestant Ethic will succeed: individual preferences based on some underlying set of “tastes” (a taste for hard work, a taste for leisure) generate outcomes that are consistent with the income level of the individual.

This understanding of poverty and its opposite was a characteristic of neoclassical economic theory even before it became consolidated as the neoclassicism we understand. Consider a representative early nineteenth century position as enunciated by Samuel Read, a major figure of that period:

> The inequality of conditions amongst men in the advanced state of civilized society is chiefly occasioned by the inequality of their possessions of wealth or property; and inequality of property is again chiefly occasioned by the constant and unavoidable operation of two great causes-first, *by the difference of application or industry, and of parsimony or saving, between one person and another*; and, secondly (by inheritance). (Read 1976 [1829]: 120; emphasis in original)

Emphasis is on the individual work effort coupled to frugality. The distinction between wealth and poverty is not a socially structured distinction, but one of individual behavior.

Note, as Read implies, poverty is linked to property rights, and there is a clear line of argument running from the core of neoclassical theory to modern arguments surrounding the efficacy of individualized property rights:

> The desirability of having an operable cost-benefit confrontation, especially one that is consistent with a goal than many value highly-individual freedom-argues strongly for a *prima facie* solution based on private property rights (Demsetz 1982: 46).

If property rights are well articulated and non-attenuated, then individuals are responsible for their own actions (and decisions). Decisions are made that result in specific outcomes, and these decisions are reduced to a benefit-cost calculation. Again, if I’m poor it’s because I chose to be poor based on my individual decisions that result from a calculation of perceived benefits relative to the costs associated with securing those benefits.

Capitalism and the Change in Perspective on Poverty

In the feudal period associated with the Middle Ages, the poor were not seen as responsible for their own poverty. Poverty and wealth were divinely structured aspects of a feudal economic order in which individuals were assigned a particular station that was fixed for all time and place. Since God was responsible for configuring the world in its hierarchical state, some necessarily had to occupy the lower ranks of the social order. This was natural, it was normal, and it was right. The poor, then, were poor as a consequence of a providential deity and poverty was seen as simply reflecting God’s grand design. At the same time, the wealthy had a duty to minister to the poor (the basis for later conservative ideological arguments in support of paternalistic stewardship), as they, too, were not individually responsible for their wealth but were simply the accidental recipients of God’s good fortune.

With the unfolding of capitalism, the prevailing sentiment began to change. In eighteenth-century England, the enormous increase in poverty coincident with the growing dominance of capitalism elicited “thousands of tracts, sermons, pamphlets, and books that attempted to explain and/or justify the existence of poverty as a feature of the most economically developed society in the world” (Ashcraft 1995: 43). While there were many arguments advanced, a most compelling case was made for the “moral depravity” of the poor, focusing attention on individual responsibility and drawing attention away from any set of social forces that might have generated the underlying cause of that poverty. Indeed, in the 1834 Report of the Poor Law Commission, “fraud, indolence, and improvidence” were cited as the main causes of poverty (Ashcraft 1995: 46). For those who remember their Malthus, in the final analysis it is not the concocted mathematical rates of growth of population and foodstuffs that are the ultimate cause of poverty, but rather the moral laxity of the poor (equated with sexual activity) who breed to the limits of subsistence (Malthus 1989 [1803], vol. 2: 87–109). After all, if it were simply the “natural laws” regulating the production of food and of people that determined poverty, all would eventually be reduced to such a state. Obviously, some have escaped poverty, and this because of their moral superiority.

And Malthus makes it very clear that the poor are responsible for their poverty by making “bad decisions.” Directing his *Essay on the Principle of Population* specifically against the arguments of Condercet, Godwin, and other representatives of the French “perfectionists” who argued that all social ills, including poverty, were the result of faulty institutional arrangements that could be modified through political action (see Claeys 1987: 20–34), Malthus argues that forms of government, property relations, institutional arrangements, etc. were irrelevant in this regard. Moreover, were the poor to be properly instructed in the fact that they, and not societal forces, were responsible for their state, the world would be a much more harmonious place-a pleasant outcome for those who benefited from extant societal arrangements:

> That the principal and most permanent cause of poverty has little or no relation to forms of government, or the unequal division of property; and that, as the rich do not in reality possess the power of finding employment and maintenance for the poor, the poor cannot, in the nature of things, possess the right to demand them, are important truths flowing from the principle of population... And it is evident that every man in the lower classes of society, who became acquainted with these truths, would be more disposed to bear the distresses in which he might be involved with more patience; would feel less discontent and irritation at the government and the higher classes of society on account of his poverty; would be on all occasions less disposed to insubordination and turbulence; and if he received assistance...he would receive it with more thankfulness, and more justly appreciate its value (Malthus 1989 [1803]: 201).

Decisions to be lazy, to be improvident, to have sex beyond some ill-defined limit–bad decisions all–were the underlying cause of poverty, and the poor themselves were responsible for their lowly state. Any responsibility associated with the prevailing economic system was thus written out of the picture.

The *Real* Cause of Poverty

> Wherever there is great property, there is great inequality. For one very rich man, there must be at least five hundred poor (Smith 1937 [1776]: 670).

Adam Smith was the first major theorist to associate poverty with the normal functioning of a capitalist economy. Note that here, Smith is not saying that poverty results from specific social institutions that may be characteristic of capitalism (or other social orders) such as racism and sexism. Unlike most modern "anti-myth" commentators, he does not base his position on specific adjuncts to the system. Rather, he goes to the very essence of that system: if there is wealth, there is poverty. Poverty is endemic to capitalism: given the normal workings of capitalism, poverty cannot be eliminated–even if racism or sexism or whatever specific practice proposed by anti-myth proponents were to be eradicated. Such practices may exacerbate poverty, to be sure, but they do not constitute the underlying cause of poverty.

Why is this? For Smith and other classical and proto-classical theorists (and for Marx if we include him in the classical pantheon), all value (output) was produced by labor. This value had to be shared with both landlords and capitalists, who were entitled to incomes (rents and profit) based on their ownership of property that was necessary to both organize and effect the production process. Capitalists and landlords, representative of "great wealth," did not produce their own incomes, but extracted output from those who produced it.

> In this state of things (capitalism), the whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock (capital) which employs him.... As soon as the land of any country has all become private property, the landlords...love to reap where they never sowed and demand a rent for its natural produce.... He (the worker) must give up to the landlord a portion of what his labour either collects or produces (Smith 1937 [1776]: 48–9; for a fuller account of all this, see Henry 2000).

Thus, the "laboring poor" were necessarily poor because they produced not only their own subsistence but the incomes of property owners; the larger the share of total output directed toward the wealthy, the smaller the share directed toward the direct producers of that output.

Further, Smith argued that because poverty was a social product of the "order of things," society had an obligation to ease the plight of the poor:

> No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged (Smith 1937 [1776]: 79; for a fuller account of Smith's position on distributive justice, see Fleischacker 2004: 203–28.).

In other words, capitalism requires exploitation, and exploitation mandates a systemic division into rich and poor. Poverty is not the result of bad decisions, but is a societal outcome necessary to the very foundations of capitalism. As such, extra-market institutions must be established to minimize poverty.

Some economists of an institutionalist persuasion also see poverty as endemic to capitalism. Karl Polanyi, for instance, is abundantly clear in *The Great Transformation* that the dominance of capitalist market exchange, with its requirement that the "fictitious" commodities money, land, and–in particular–labor power be organized to allow the system to function at all, will generate poverty. And, if the fate of these three commodities is left to the whims of market operations, the outcome would be the "demolition of society" (Polanyi 2001 [1944]: 76). Hence, the history of capitalism has been, in a fundamental sense, the history of attempts (with varying degrees of success) to find institutional palliatives to contain the amount and severity of poverty that is demanded by that very same economic system that would be eliminated were poverty allowed to develop to its "natural" levels.

This is a quite different theoretical foundation from which to examine poverty where the underlying cause is claimed to rest on racism, corporate power, etc. But it also calls for a different conclusion regarding the solution to poverty. Clearly, if the cause of poverty is the economic organization itself, the solution is to rid society of that organization-capitalism must be replaced by a socially organized production process in which the objective of production is to produce use values rather than profitable exchange values. Short of this, what can be done to ameliorate poverty?

Economists of a (quasi-) Keynesian bent focus on macro demand management to remedy the problem via "full employment." Increasing aggregate demand through fiscal (and perhaps monetary) policy leads to higher levels of employment. Rising employment means previously unemployed workers are now receiving wages and, assuming those wages are greater than any previously received unemployment benefits, poverty has been lessened. With sufficient demand stimulus, then, a level of employment can be achieved that will significantly reduce, if not eliminate, poverty. In this scenario, poverty is directly correlated with unemployment, thus the smaller the level of unemployment, the smaller the amount of poverty. "Full" employment is the solution to poverty.

Without entering into a discussion about the meaning of full employment, the measurement of unemployment by the Bureau of Labor Statistics (or any other government's relevant agency), whether full employment is possible under capitalism, or whether such a program is truly Keynesian, let me argue here that such a policy would be ineffective–or, at a minimum, would not achieve the stated objective of ending poverty (assuming this is even possible within the constraints of a capitalist economic order).

In the 1960s' "war on poverty," begun under the Kennedy administration and continued under that of Johnson, the dominant voices were those of the quasi-Keynesians Walter Heller, Gardner Ackley, and James Tobin of the Council of Economic Advisors (initially with Heller as chair who was succeeded by Ackley in 1964), who were insistent on fiscal stimuli, in particular tax reductions, to eliminate poverty. With near-full employment resulting from increased aggregate demand, poverty would be eradicated. In opposition were economists John Kenneth Galbraith and Leon Keyserling (former chair of the Council), who viewed demand creation measures as insufficient. The main problem, according to these institutionalists, was that a significant portion of the (potential) labor force was excluded from gainful employment because of insufficient skills. (One could–and should–argue at this point that this was a consequence of previous unemployment.) Hence, a job creation

program was necessary to not only provide wages that would alleviate poverty, but also develop skills that would provide the poor with greater income earning opportunities in the future. In particular, such programs would assist blacks, who had been historically excluded from jobs requiring those skills (For a full account of this episode, see Russell 2004.). Martin Luther King was adamant in promoting this sort of program to assist poor whites as well as blacks in acquiring skills that would assist in lifting them out of poverty (see Forstater 2002).

The "structuralists" were correct. While extra-market demand stimulation clearly is important in alleviating poverty, it is insufficient. To the extent that poverty is linked to employment, and that levels and types of employment are determined by the underlying economic arrangements, then incomes, based on the amount and forms of employment, must have something to do with the ability to secure jobs–and this requires the development of necessary skills.

Historically failed policies assist in pointing us toward a more tenable corrective (though not a solution) to poverty: a government-mandated jobs *creation* program, coupled to a well-funded training program that is supported by an incomes policy based on a "living wage." This is not to say that standard forms of welfare payments should be eliminated. These will still be necessary in some situations, particularly in regard to the support of minors. Other social institutions–child care, facilities for the elderly, etc.–must also be maintained (and made better) to complement this program.

Capitalist decisions to produce cannot be relied on to provide sufficient jobs to employ all those seeking employment. Hence, non-market jobs must be created to absorb possibly significant sections of the labor force, both actual and potential. This aspect of a jobs-creation program goes far beyond fiscal measures to increase spending. The aggregate demand approach essentially relies on private firms to provide the employment that will alleviate poverty. Here, government is called upon to create those jobs directly. Government is in a position to "see" the economy in the aggregate and is not concerned with individualized profit-making decisions; thus, it can determine the number of jobs necessary to raise the economy to a full employment level. Also, training programs are necessary to eliminate the "structural" problems associated with skill levels and matches with the requirements of the private sector. As seen in the "war in poverty," one basic problem with that program was its woeful inadequacy in dealing with insufficient skills. Such a training program also better prepares individuals for work in the private sector. Last, if the concern is the alleviation of poverty, it would be improper, if not criminal, to develop this program on the basis of low (minimum) wages. A "living wage"–one that provides an income sufficient to allow recipients to support a "comfortable" life is a necessary aspect of a respectable program designed to remedy poverty. In a relative income sense, there will continue to be poor people, of course. But poverty, the absolute lack of sufficient subsistence, can be eradicated.

Such programs have already been developed and go by different names: Employer of Last Resort, Buffer Stock Employment Program, and others (see Forstater 1999; Mitchell 1998; Wray 1998). They are all compatible with capitalism and can be shown to make capitalism a more congenial and viable system. My own position is that one or another of these proposals will not be implemented until we find ourselves in an economic debacle similar to that of the 1930s (when lower level, but not dissimilar, arrangements were put into effect), but this is irrelevant to the point at

hand. If there is agreement that the cause of poverty is the very nature of a capitalist economy, then capitalist governments, which claim to represent the interests of all the citizenry, should be *required* to institute remedial programs to alleviate the worst consequences of that system.

Conclusion

Emphasis–*any* emphasis–on individual decision-making as the underlying cause of poverty not only misses the point, but plays into the political hands of anti-social ideologists. “Bad” decisions cannot be the cause of poverty: poverty is socially caused and is a consequence of specific economic arrangements. As long as those arrangements are in effect, there is no solution to poverty outside of significant and thoughtful government activity.

What may be most interesting in the ongoing debate on poverty (and related social ills) is that the focus on the individual prevents us from seeing the fundamental issue at hand. In fact, what really are bad decisions?

> A person’s decision is said to be bad when we do not like it because it injures us. Murder is evil because people object to being murdered. Stealing is evil because people are apt to be irritated when they are robbed. Evil conduct in general consists in taking advantage of power of opportunities to injure other people. The distinction between evil conduct and good conduct arises solely from social circumstances and has therefore nothing to do with abstract qualities inherent in things, or with the order of the universe, or with divine commands, or with categorical imperatives, or with laws inscribed in the conscience. It has to do with social relations and social conditions (Briffault 1932: 91–2).

Bad decisions, then, are made possible and determined by the nature of the social organization that surrounds individuals. There is nothing intrinsic in individual decision-making that would allow one to claim that a particular decision was bad independent of the social relations within which that decision was made. To decide to withhold food supplies in the interest of raising prices and profits is bad because at the other end of the production-distribution network people are inadequately fed; yet stockholders view this as good. Such seemingly contradictory outcomes, though, are possible only within the context of particular forms of economic organization. And it is this organization that should be the center of both concern and analysis, not the inconsequential decisions of individuals who have no power–as individuals–to affect the environment within which they must exist.

Acknowledgments I thank Steven Bolduc, Stephanie Kelton, Samuel Pavel, Éric Tymoigne, L. Randall Wray, audience participants and two anonymous referees for most helpful comments. I also thank Charlene Heinen for contributing her copyediting skills.

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John F. Henry is a Professor Emeritus at California State University, Sacramento and is currently a Visiting Professor, University of Missouri-Kansas City. He has authored two books and over thirty articles, papers, and contributions to collections, he is also a recipient of the CSU Sacramento Outstanding Teacher Award and the Service Award and has presented the annual John C. Livingston Lecture to the assembled faculty. He has also taught at Staffordshire University, England, and has been a Visiting Scholar at the University of Cambridge. He is a Ph.D. degree holder from McGill University.