

WAGE POLICY AS AN ESSENTIAL INGREDIENT IN A DEMOCRATIC SOCIETY

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ABSTRACT

In this article, I argue that wage policy is an essential ingredient in the maintenance of democratic society for the following reasons. First, it raises the wages of those at the bottom, and thereby gives workers more independence and power as they are placed on a more equal footing with managers. This is not just a matter of affording low-wage workers greater monopoly power, as James Galbraith (1998) suggested; it is a matter of enabling these workers to develop their capabilities and thus enhance their freedom as suggested by Amartya Sen (1999). Second, because wage policy through wage contour effects might increase median wages for the middle class, it has the potential to arrest wage stagnation, thereby forming the foundation of a jobs policy. This alone forms an essential ingredient in the maintenance of democratic society: economic development. And third, by adding to personal autonomy and benefiting the middle class, wage policy can also result in reduced income inequality.

WAGE POLICY

A wage policy could be broadly defined as a set of institutions designed to bolster the wages of the middle class. Historically, these institutions assumed the form of labor policies that allowed for unionization and collective bargaining, and specific wage floors. Traditionally, wage floors assumed the form of federal and state minimum wage legislation. More recently, they have assumed the form of Living Wage ordinances at the local level, and also included broader proposals for basic and/or

minimum incomes (Van Parijs, 1992; White, 2003). Many European countries have wage policies in the form of centralized wage-setting institutions. In those countries, income inequality also tends to be less than in the United States. Data from the Luxembourg Income Study (LIS) found both inequality and poverty to be greater in the United States than in other Organisation for Economic Co-operation and Development (OECD) countries. Whereas the United States had the highest inequality in disposable income, Sweden and Norway had the most equally distributed income (Buhmann et al., 1988). At the same time, Sweden is an example of a social democracy with a wage policy of sorts included in the larger “Swedish Model,” which is also known as the Rehn-Meidner model. This model’s wage policy, involving what is known as a solidaristic wage, has aimed to achieve equal pay for equal work. It is intended to achieve a more just wage structure and also reduce wage competition. The goal is not just the achievement of a more egalitarian wage structure but the exertion of pressure on firms so that it will become more difficult for one to undersell another simply by paying lower wages.

BENEFITS FOR DEMOCRACY

Democratic theory assumes a society of free, equal, and autonomous individuals. Although democracy may have different meanings to different people, an ideal of democracy is that all individuals are supposed to have equal standing. That is, each individual is equal before the law, has the same vote as other individuals, the same right to express one’s self in the political sphere, and perhaps most importantly the same potential to influence what government does, even if the individual opts not to exercise that potential. All citizens, then, have the same access to governing institutions. Within this theoretical construct, which may also characterize American democracy, money is supposed to be irrelevant to one’s standing. Both the rich and the poor are equal before government (Hacker & Pierson, 2010). It is perhaps a bedrock principle of democratic theory, at least in its procedural form, that all individuals as citizens enjoy the same consideration of their preferences and interests. All individuals enjoy the same rights of citizenship as others and must be able to enjoy their autonomy so that they can participate as full-fledged citizens in the democratic process. The greater their autonomy, the more likely they are to participate in the democratic process.

Also core to democratic theory is a conception of equality, but equality is a difficult concept to define. It has meant different things to different people. Four common meanings are legal, political, social, and economic. Legal equality usually means that when any member of society is subject to a law, all are subject to the same law. Political equality, then, may be considered an extension of legal equality in that each individual has the same vote and access to political institutions. To a certain extent, legal and political equality speak to bare minima. Social and economic equality, then, attempt to go beyond the minima. Social equality refers to a person’s standing within society, which also has to do with how

a person is regarded by both public institutions and other individuals. And economic equality means not only that individuals enjoy the same economic resources as one another but also that they are not in a position to be exploited. Stuart White (2007) suggests that the demands for legal, political, social, and economic equality are in essence demands for certain types of social arrangements. Economic equality might be valued because it is viewed as being instrumental to aspects of social equality, such as the absence of any one person or group having power and domination over any other individual or group. Democratic political systems are often based on the principle of political equality, which is to say that a democratic political system is not the same as a democratic social system. Procedural equality usually includes just legal and political equality.

Equality in the United States and other liberal market economies, however, has generally tended to be conceived of in procedural terms. Procedural equality is critical to democratic society because it serves to secure another essential condition: personal freedom, which is also a necessary condition for individuals to function autonomously. In order for there to be freedom, certain political conditions must be met, and equality, particularly equality of opportunity or procedural equality, is one of them. Individuals are free to pursue their goals and objectives—that is, their own interests—so long as their pursuit does not interfere with others' ability to pursue their own goals and objectives. In a very basic sense, and certainly within the context of classical political thought, this is what it means to talk about personal independence or autonomy. Procedural equality is not usually concerned with how resources, wealth, and income are distributed but with how individuals stand in relation to one another. Individuals can have more than other individuals so long as they are equal in terms of their legal and political standing.

A more substantive democratic theory, however, seeks to include both social and economic equality in addition to legal and political equality, and would posit that equality in terms of standing, rights, access, and resources is the fundamental essence of democracy. This is the notion that unless resources in terms of wealth and income are equally distributed, democracy is at best partial—it is incomplete (Bowles & Gintis, 1986; Dolbeare, 1986). Full democracy requires that individuals enjoy the same rights in the economic realm that they do in the political. And yet, the notion of full democracy is really an ideal type. The closest to full democracy that some of the liberal democracies come is seen in some of the social democracies in Europe where wage policies exist in the effort to achieve a more egalitarian wage structure. A good example of this is France, where wage rates tend to be set in a more centralized fashion. Following World War II, the first national legal minimum hourly wage—the minimum interbranch guaranteed wage (SMIG)—was introduced and indexed to inflation. In 1970, this was transformed into the SMIC—the interprofessional, index-linked growth minimum wage—and was automatically indexed to inflation and also, particularly, to real growth (Caroli & Gautié, 2008). Although France has been characterized by higher rates of unemployment, it has also had much lower levels of low-wage work. Low-wage work in

France is not identical to poverty. Rather, the minimum wage has played a key role in compressing the distribution of wages at the bottom. One of the key explanations for the smaller number of low-wage workers in France is the existence of the minimum wage. The minimum wage has also resulted in lower numbers of low-skilled, potentially labor-intensive activities (Caroli, Gautié, & Askenazy, 2008).

Sweden, too, has long been considered an example of a social democracy that may perhaps approximate a more full democracy. Sweden is governed by the “Swedish Model,” which is predicated on an active labor policy. This active labor policy essentially has three components: full employment, a fair income distribution and higher standard of living, and higher efficiency and greater democracy in the economy. Fair income distribution and greater democracy revolve around what has come to be known as a solidaristic wage policy (Wadensjo, 2001). On one level, a solidaristic wage policy implies equal pay for equal work regardless of the company’s profitability. In effect, it is suggesting that a more democratic workforce in terms of equality is more important than a specific firm’s profit. But on another level, the goal is to establish fair wage differentials rather than general wage equalization. Although wage differences between workers are to be expected, it is also believed that these differences should reflect objective differences in working environment, responsibility, experience, and education as opposed to short-run profits.

WHY INCOME INEQUALITY IS A PROBLEM

Why, then, is there such a concern with inequality in liberal democracies? Procedural equality, which also stresses equal opportunity, would suggest that unequal outcomes arising from the choices that individuals have an equal opportunity to make unfettered are not really a problem. That is, it assumes that there are no obstacles to participation. Of course, if low-wage workers aren’t able to effectively participate because they lack resources, compared to higher wage workers who may have a wider range of options open to them, the outcomes are not likely to be fair. And yet, while procedural equality does not require equal outcomes for all, it does assume that there will be equal outcomes for a population that is sufficiently large to maintain stability, this sufficiently large population being defined as the middle class. So while procedural democracy does not explicitly require economic equality, it assumes a measure of it, as reflected in the presence of a broad middle class.

Unequal distribution of wealth and income, however, may adversely affect individuals’ ability to participate in the democratic process on the same footing as equals. It may result in procedural inequality, to the extent that those lacking in wealth and income may not enjoy the same access to political and policy officials as those who possess wealth and income may enjoy. With a greater concentration of wealth at the top, those at the top are in a better position to use their wealth toward the attainment of their political and other ideological

objectives (Bachrach & Botwinick, 1992). Those at the top of the distribution often enjoy inordinate power and are able not only to limit redistribution but also to shape the rules of the game in favor of those with more resources (Stiglitz, 2012). In studying the votes on minimum wage legislation, Larry Bartels (2008) found that members of Congress, both Republicans and Democrats, tended to be more responsive to affluent constituencies than to nonaffluent constituencies. And in many cases, they were nonresponsive to the views of those at the bottom of the income distribution. There is good reason to believe that the wealthiest Americans exert more political influence than the less fortunate citizens, and that the wealthiest citizens also tend to be highly active in politics, far more so than the typical citizen. The gap between the policy preferences of the wealthy and those of other citizens is especially evident when it comes to job programs and income support. The wealthy give high importance to the problem of unemployment, but they overwhelmingly reject government action to help with jobs (Page, Bartels, & Seawright, 2013). To the extent that is true, it calls into question whether all groups really do have equal standing. This might then imply that a more equitable distribution could conceivably result in more responsiveness, because members of Congress would no longer have incentives to favor the affluent over the less affluent, or better financed interest groups over poorly financed groups.

Inequality, especially in its extreme form of poverty, does in the end deprive us of our capabilities, which are required for autonomy. Those with more resources may be better positioned to pursue their goals and objectives, while those with fewer resources may find that their ability to pursue their goals and objectives is limited as a result. The ability to pursue goals and objectives is important to democracy for yet another reason. A democracy, especially as its legitimacy and power are derived from popular consent, assumes that individuals have the capacity to reason for themselves, that is, to deliberate in the public square, and to act on that capacity in a responsible manner. They cannot effectively participate, whether it be in full policy discussions or in selecting their own representatives, if they cannot deliberate in a rational manner. As democracy requires that individuals act on their agency, human agency must be protected. But this human agency also presupposes that basic material needs will have been met, which may be less likely with lower wages. Democracy also requires a measure of trust between people, and growing income inequality is said to threaten trust, as various groups, mainly those at the bottom, experience political alienation and perceive the system not to be fair. As Joseph Stiglitz (2012) notes, social capital is the glue that holds society together. If individuals believe that the economic and political system is unfair, the glue does not work and society does not function well. Eric Uslaner (2008) adds to this by noting that institutions effectively promote trust. A trusting population tends to be more cooperative, and governments with trusting populations tend to be less corrupt and function with less conflict and greater responsiveness.

Inequality may be partly responsible for a whole array of health and other related social problems. According to Richard Wilkinson and Kate Pickett (2010),

the scale of income differences has a powerful effect on how we relate to each other. Looking at several different countries, they found that, within each country, people's health and happiness were related to their incomes. Rich people tended, on average, to be healthier and happier than poorer people in the same society. Poor health and violence are more common in unequal societies. One needs to feel valued, and capable human beings crave positive feedback and often react with anger to implied criticism. Social status carries the strongest messages of superiority and inferiority. Social mobility is widely viewed as a process by which people are sorted by ability. Greater inequality, then, appears to heighten people's social evaluation anxieties by measuring the importance of social status. We see social positions as a very important feature of a person's identity. Greater inequality results in increased status competition. Inequality produces problems associated with social differences and the divisive class prejudices that go along with them. It also weakens community life and increases violence. The quality of social relations deteriorates in less equal societies. Our position in the social hierarchy affects which people we see as part of the in-group and which as part of the out-group. Trust affects the well-being of individuals and also the well-being of civic society. Levels of social trust are connected to income inequality. In unequal countries, a much higher percentage of the population suffers from mental illness. Social status and social integration are now considered to be important determinants of population health. Inequality is now considered to be associated with lower life expectations, higher rates of infant mortality, shorter height, poor self and reported health, low birth weight, AIDS, and depression. Inequality affects other measures of societal well-being as well. More unequal countries tend to have worse educational attainment, and greater inequality may affect children's development through its impact on family life and relationships. More unequal societies also tend to have higher teenage birthrates and be more punitive. They imprison more people and spend less of their wealth on the welfare of their citizens. Greater income inequality also reduces social mobility. Social mobility is lower and geographical segregation is greater in more unequal societies. Wilkinson and Pickett (2010) suggest that greater inequality actually increases downward social prejudices by inducing individuals to show their superiority to others, which is the way they maintain their social status. Finally, more unequal societies also have higher consumption, which may be detrimental to the environment, and they also tend to be more belligerent internationally.

IMPACT OF INEQUALITY ON POLITICAL ANOMIE

There is reason to believe that income inequality may lead to political anomie. As family income inequality increases, those families below the median fall further from the social norm than before. Similarly, those at the top of the distribution see a larger gap between themselves and the rest of the population. Many fear that the growth in income disparities among families has had a variety of

adverse consequences for both families and communities. Families at the bottom of the distribution may end up drifting further from the mainstream and thus may also experience greater alienation, as those with greater resources may come to see them as both more distinct and undeserving. This may also have consequences for the way citizens in turn view the potential role and functions of government (Haveman et al., 2004). Poor people tend to experience greater social alienation because their tendency to participate less than others means that they may be out of touch with common interests. But participation is also less likely because the alienation coming from social isolation will lead many to the conclusion that there really is no benefit from participation in the common project of which they are part. Less inclination to participate, then, isn't only a function of the absence of personal autonomy but a function of social alienation as well. Of course, these two may not be mutually exclusive, as a person lacking in personal autonomy is likely to feel socially isolated because of the attached stigma. The alienation may also have something to do with trust. Eric Uslaner and Mitchell Brown (2005), for instance, argue that greater equality and higher levels of trust are two pathways to participation. Inequality may actually depress participation, either directly or indirectly, through its effect on trust. Where inequality is higher, the poor may also feel powerless. Trust, in other words, rests on foundations of economic equality. When resources are unequally distributed, those at the top and the bottom might not see themselves as sharing the same fate. Consequently, they have less reason to trust people of different backgrounds. Where inequality is high, people may be less optimistic about being masters of their own fate. But it would also suggest that measures are necessary to strengthen institutions that have served to give people voice in the past, like labor unions. Similarly, it would imply that other types of wage policy that give workers a type of voice are also needed.

We might then postulate that the isolation resulting from inequality leads to political anomie—the absolute alienation of the individual from the political process. The most important set of individual and contextual factors influencing the extent to which one participates in the political system is the socioeconomic (SES) model of participation, which stresses a strong association between political activities and an individual's income and especially education (Verba & Nie 1972). On the basis of Uslaner and Mitchell's (2005) argument, increasing inequality should result in less participation because of declining trust. Data from the Current Population Survey (CPS) show that between 2000 and 2010, income inequality did increase (see Tables 1 and 2).

Table 1 shows that between 2000 and 2010, income inequality rose by 4.9%, not so much because the incomes of those at the top rose, but because the incomes of those in the bottom quintile fell. The mean income of those in the top quintile increased by 26.7%, while the mean income of those in the bottom quintile increased by only 21.4%. Were income inequality to be reduced overall, the mean incomes of those at the bottom would have to increase at a higher relative percentage rate than the mean incomes of those at the top (Gottschalk, 1997). Between

Table 1. Ratio of Top Fifth (Mean) of Household Income to Bottom Fifth

Year	Bottom	Top	Ratio
2000	\$19,626	\$159,1999	8.1
2010	\$23,828	\$201,711	8.5

Source: Current Population Survey's March Annual Supplements for 2001 and 2011, retrieved from Bureau of the Census (2012).

Table 2. Percentile Distribution

Year	10th	50th	90th	50/10	90/50	90/10
2000	\$20,719	\$57,944	\$128,001	2.8	2.2	6.2
2010	\$25,000	\$73,300	\$166,739	2.9	2.3	6.7

Source: Current Population Survey's March Annual Supplements for 2001 and 2011, retrieved from Bureau of the Census (2012).

2000 and 2010, income inequality increased 8.1% between the very top and the very bottom.

In a study of the relationship between income inequality and civic engagement, Levin-Waldman (2013) found that in 2008, individuals in households with different levels of income had different levels of civic engagement. Six measures of civic engagement were looked at: daily discussions of politics, daily reading of newspapers—which were intended to speak to one's knowledge about and interest in politics—involvement in protests, attendance at political meetings, visits to public officials, and participation in civic organizations. Civic engagement was found to be greater on all measures among those in households earning more than \$100,000 a year than among those earning less than \$30,000. Those at the highest end of the distribution were not necessarily more likely to be engaged than those earning between \$30,000 and \$99,999, but those in households with income between \$30,000 and \$59,999 were considerably more likely to be engaged than those in households with income below \$30,000. Civic engagement appeared to improve dramatically when one was in a household with income greater than \$30,000. These differences alone might suggest that entry into the middle class might result in greater levels of civic participation. This is important because the impact of a wage policy is bound to be felt also by those whom we would classify as being in the middle class. Moreover, logistical regressions found that those with higher incomes were more likely to be civically engaged, and that those earning less than a minimum wage were least likely to be engaged. These findings might suggest a basis for inferring that a wage policy might result in more people being

engaged, in part because they would have greater capabilities. Although civic participation is generally in decline in the United States, it is still considered to be healthy relative to other countries (Howard, 2006). And yet, civic involvement is generally lower in the United States than in the Nordic countries, where income inequality tends to be much lower (Center for Democracy and Civil Society, 2007).

PERSONAL AUTONOMY

A wage policy that might reduce the gap between the top and the bottom, or one that would enable individuals to move to higher income ranges, might lead to greater participation. A wage policy, then, would be in keeping with the ends of democratic society because it might contribute to greater personal autonomy. A higher income would enable individuals to develop their capabilities. Amartya Sen (1999) points out that income deprivations and capability deprivations have considerable correlational linkages. To the extent that individuals at the bottom of the income distribution can be said to be poor, Sen suggests that poverty deprives individuals of their capabilities. Poverty should be viewed as a deprivation of basic capabilities rather than merely as low income. When Sen talks about a capability, he means the alternative combinations of functioning that are feasible for a person. A capability is a kind of freedom. Therefore, he suggests that there is a strong case to be made for judging individual advantage in terms of the capability that a person has—“the substantive freedoms he or she enjoys to lead the kind of life he or she has reason to value” (Sen, 1999: 87). Sen (1999: 119) takes the argument further:

The problem of inequality, in fact, gets magnified as the attention is shifted from income inequality to the inequality in the *distribution of substantive freedoms and capabilities*. This is mainly because of the possibility of some “coupling” of income inequality, on the one hand, with unequal advantage in connecting incomes into capabilities, on the other.

Following the same line of thought, Mark Rank (2004) suggests that poverty might be the most visible effect of income inequality, but because few people are affected by it, the connection between inequality and poverty might not be readily apparent. And yet, poverty, just like income inequality, results from failings in economic and social structures. But it is self-perpetuating because to the extent that it deprives individuals of their capabilities, it effectively places them in a disadvantaged position, in which they will be unable to earn income sufficient to lift themselves out of poverty. Of course, it isn't only one's current status in poverty that determines whether one will remain in poverty, or the extent to which one will be disadvantaged in the labor market.

Ultimately, however, wage policy is essential to democratic theory because, through the personal autonomy it either confers or enhances, it serves as a bulwark against exploitation. Democratic theory, as I have been arguing, assumes a society of free, equal, and autonomous individuals. These individuals enjoy the

same rights of citizenship as others and must enjoy their autonomy so that they can participate as full-fledged citizens in the democratic process. The greater their autonomy, the more likely they are to participate in the democratic process. This value of autonomy, which is ultimately a matter of human dignity, is considered to be an essential element in the complete attainment of democracy. One cannot participate as a full-fledged citizen if one isn't fully autonomous.

Bruce Kaufman (2005) suggests that democracy promotes self development by giving people independence and autonomy, as well as opportunities to have a voice in the political process. That voice, however, is meaningless if their personal autonomy is undermined because the low wages they earn in the marketplace render them dependent on others and subject to exploitation. A variety of theorists talk about the need for a minimum income as a basis for personal autonomy, which in turn is a requisite for democracy. Timothy Gaffaney (2000) maintains that a democratic polity operates on the premise that individuals will be politically autonomous—that they indeed will be citizens. The goal of democracy does not necessarily have to entail economic equality. But a democratic polity doesn't merely respect and ensure noninterference and noncoercion. It must also ensure that conditions for participation in that democracy are available to all individuals, for by doing so it guarantees a universal application of citizenship. In fact, the state must guarantee the conditions for full citizenship. This ideally means that government must provide the poor with the practical training and skills necessary for conducting democratic government. It might mean providing them with the basis upon which they can achieve economic independence.

Amy Guttman and Dennis Thompson (1996) argue for autonomy on the basis of what they call a fair opportunity. In a deliberative democracy, a basic opportunity principle secures citizens an adequate level of basic opportunity goods. Such opportunity goods include an adequate income level, defined as that which enables one to live a decent life according to society's current standards for middle class living. By talking about an opportunity to join the middle class, they in essence acknowledge the importance of the middle class to the maintenance of democracy. Their basic opportunity principle is within the context of welfare provision, but the same arguments could just as easily be applied to wage policies in whatever form. A wage that enables workers to live in dignity is at the root of what it means to have a fair opportunity. The call for a fair opportunity, then, might really be seen as a response to the unequal opportunities that are the product of income inequality. By calling for a fair opportunity, Guttman and Thompson are asserting that society has an obligation to redress the imbalance and ensure that each individual has the resources to participate.

If, however, we acknowledge that guaranteeing the conditions of full citizenship would entail reversing income inequality, Wilkinson and Pickett (2010) concede that specialized policies and government programs that involve redistribution need not be the only approach. They may be the obvious answer, but they are not necessarily the best. Rather, more equal societies appear to have a strong trade

union presence, which itself could be considered one form of wage policy. As modern inequality exists because democracy is excluded from the economic sphere, this needs to be dealt with by an extension of democracy into the workplace. Greater worker participation in the workplace might lead to a stronger worker voice, with the result being less inequality.

A fair opportunity would actually suggest something broader than the statutory minimum wage. As a broader measure, Philippe Van Parijs (1992) calls for Basic Income Capitalism, defined as a socioeconomic regime in which the means of production are for the most part privately owned, but in which each citizen is entitled to a substantial unconditional income over and above what s/he might earn through normal participation in the labor market. A basic income is, as such, essentially a pathway toward the achievement of a just society, which Van Parijs understands to be a free society in which all members are as free as possible. To be truly free, one must possess the means to do whatever one might want, and not just the “right” to do it. A basic income, then, especially if it is unconditional, and ideally if it is set at as high a level as possible, provides individuals with the means to be truly free. As Van Parijs (1992: 33) explains, real freedom extends beyond formal freedom, which involves the ability to make choices among various goods that may be consumed. Rather, it involves the “real freedom to choose among the various lives one might wish to lead.” But without a basic minimum income, one’s ability to take advantage of opportunity, that is, make choices, is indeed adversely affected. Real freedom, in other words, entails being able to effectively act on one’s formal freedom. To earn an income that enables one to take advantage of opportunity is to effectively enable one to be autonomous.

Stuart White (2003), too, talks about a basic minimum income as a vehicle for achieving what he defines as justice as fair reciprocity. According to this conception of justice, a good society is one of mutual concern and respect—it is one in which individuals exhibit what he calls “democratic mutual regard” (White, 2003: 27). A society governed by democratic mutual regard is one in which “individuals seek to justify their preferred political and economic institutions to others by appealing to shared basic interests, and to related principles that express a willingness to cooperate with their fellow citizens as equals” (White, 2003: 25-26). Each citizen has a basic interest in having opportunity that is adequate to reflection and critical deliberation about those matters that are essential to each citizen’s ethical agency. Therefore, the primary commitment of justice as fair reciprocity is the upholding of basic liberties and securities. In a society built around the ethos of democratic mutual regard, citizens must accept and affirm each other as equals, and consequently design a common set of institutions that will govern their lives together in a fundamental way. Justice as fair reciprocity, however, entails more than this give and take; it also involves a commitment to substantive economic reciprocity.

Society, then, has a responsibility to ensure that all who participate—which by definition would have to include all, regardless of endowments and regardless of where individuals fall in the wage distribution—are in no way burdened by their

participation. But workers who do not earn wages sufficient to sustain themselves in dignity are indeed burdened. Therefore, society has to guarantee a universal basic income (UBI), not merely because a person exists but also because as a member of the community who is expected to participate in the productive enterprise of that community, that person has a right to expect that s/he will be able to live in dignity. To live in dignity is essentially to live without being exploited. In a larger sense, White is suggesting that a member of the community who participates in the common project of society by working has a right not only to expect that s/he will live in dignity but also that government through policy will ensure conditions that enable her/him to continue being autonomous. The UBI, of course, reflects a broader wage policy than a mere minimum wage, but it nonetheless assumes that the path to freedom, and ultimately to capabilities, is indeed a livable wage. Or, stated differently, the democratic society has an obligation to create conditions, especially for those lacking in capabilities, that will enable them to be autonomous.

Although these authors put forth the idea of a UBI on the grounds that it would help achieve a broader form of individual freedom, a wage policy does not have to be nearly as encompassing. One obviously cannot be given a blank check, but one's minimum income should enable one to be autonomous insofar as one does not need to be dependent on others. A wage that enables individuals to live above the poverty line with dignity would go a long way toward enabling them to better act on their human agency. As much as the UBI may be beneficial to democracy, there are costs associated with it, nonetheless. Even Card and Krueger (1995), in their minimum wage studies where they found no disemployment effects in the fast food industry, acknowledged that there was a tipping point. A wage that was high enough could certainly have the adverse effects predicted by the standard model. And yet, because the minimum wage has been so far below a market clearing wage for some time now, they concluded that the minimum wage in the United States was nowhere near that tipping point. Perhaps the key point here is that in a democratic society, the community should make decisions for the good of the community based on a broad array of cost-benefit considerations. Because a wage policy such as I am suggesting is nowhere near as encompassing as that proposed by Van Parijs (1992) or White (2003), the consequences are ambiguous at best, which in and of itself opens the door to the type of experimentation that may be beneficial in a democratic society (Levin-Waldman, 2004).

ECONOMIC DEVELOPMENT

Economic development has long been considered essential to democracy because it results in the generation of a broader middle class, in which there is relative equality of condition among the members. A successful democracy requires a minimum level of aggregate wealth, a certain degree of industrialization, a certain level of urbanization, and a certain level of education that will result in fewer of its citizens living in poverty (Lipset, 1959). But it also requires the

maintenance of a middle class in order that the gap between the top and the bottom does not become so wide that it leads to potential social unrest. To say that there cannot be wide disparities in wealth and income is to say that some measure of equality is necessary. And to the extent that democracy requires economic development as a means of preventing wider disparities in wealth and income, it presupposes a wage policy as part of that development. Development is ultimately about investing in people and their communities. And a wage policy, in the form of a minimum wage at least, would appear to have positive welfare effects that benefit the middle class in addition to assisting those at the bottom of the distribution.

For Sen (1999), development is about enabling individuals to enjoy more fully the freedoms that they have. Development, then, requires that the major sources of unfreedom be removed. These barriers include poverty as well as tyranny, poor economic opportunities as well as social deprivation, and neglect of public facilities as well as the intolerance or overactivity of repressive states. A wage policy, then, needs to be seen as a measure that would remove at least two of these barriers in that it could also be about creating jobs. At a minimum, a wage policy, as we have seen, will ensure that people who work will not become destitute, and it will also serve to maintain the middle class as part of a process of continued development. Moreover, it will enhance individual autonomy by enabling individuals to increase their capabilities. But because it will have macroeconomic benefits, it can also be the basis of a jobs policy.

A wage policy could result in job creation by allowing individuals to effectively demand more goods and services. The neoclassical model of competitive markets does assume full employment in the absence of government interventions and wage rigidity that would prevent workers from lowering their wages until their labor services were consumed. This should lead to a drop in prices for goods and services because demand would be lower due to workers' reduced ability to demand goods and services. And yet, because there are other costs, mainly fixed costs, associated with the production process, there really is a limit to how low prices overall can drop. The only way to get around this problem is through a wage policy that would enable workers at a minimum to continue demanding goods and services in the aggregate, and perhaps more. As workers are able to purchase more goods and services because of their greater purchasing power, firms might then be able to expand, thereby creating new jobs (Levin-Waldman, 2012).

A wage policy that bolstered the middle class might be a means by which individuals could be assured that they would continue to have purchasing power. This idea does have some roots in institutional economics. John R. Commons, in particular, took the view that a decline in prices and wages during recessions and depressions would only aggravate them by reducing purchasing power and in turn leading to bankruptcy. For Commons, the answer lay in redistributing income from profits to wages through collective bargaining agreements. Collective bargaining would prevent both profiteering and underconsumption, thereby assisting in the maintenance of purchasing power and aggregate demand. Although he

recognized that unions do have defects that might hinder economic efficiency in various ways, he also believed that in most cases their benefits to society would outweigh their costs (for Commons' views, see Kaufman, 2003). The same argument could easily apply to a more general wage policy, of which unionism is only one component.

WAGE POLICY AND THE PATH TOWARD DEMOCRATIZATION

A wage policy is an essential ingredient in the achievement of greater democratization, because while it will indeed further economic development and shore up the middle class, it should in the process provide needed assistance and relief to the poor. A meaningful democracy requires that all citizens have the ability to participate, but they do not have that ability if their deprivation due to low wages results in their lack of capabilities. Holzner (2007) observes that in Latin America, where the lower classes make up more than half of the population in many countries, the participation of the poor is all the more important. The empirical evidence suggests that while neoliberal policies, or market-based reforms, may have stabilized democratic politics in the region, this has been at the expense of political participation, representation, and government responsiveness. Neoliberal policies have a particularly devastating effect on the ability of popular groups to mobilize against market reforms by atomizing workers and peasants, thereby weakening their ability to organize and closing off access to key allies and ministers. In Mexico, for instance, political activity and growing feelings of political engagement among the poor initially surged during the 1990s, but after 1997 participation in terms of voter turnout, petitioning activity, and feelings of political interest and efficacy declined overall. The actions of the Mexican state during this period, many of which served to deepen the free market model of development, affected the poor more severely than other groups. As a result, "the poor are less and less able to afford the increasing costs of political action, are increasingly pessimistic about their ability to influence the decisions and actions of their government, and more and more often choosing political strategies that do not enhance their voice. The net effect of institutional reforms, therefore, has been to stifle poor people's political activity, especially in comparison with more affluent groups" (Holzner, 2007: 91). Political participation in Mexico, especially the political activity of popular groups, has always been strongly influenced by the actions of the state and by these groups' relationship to political parties and corporatist organizations. Poverty and income inequality has only worsened in Mexico, as there has been a systematic redistribution of resources away from the lower classes to the elites since government began implementing free market reforms in the second half of the 1980s. Free market reforms weaken lower class political mobilization by fragmenting and dividing organizations, eroding their membership, and denying them key material and organizational resources. The erosion of organizational power is very damaging to lower class political participation because the poor rely

more heavily than other groups on organizations to mobilize them into politics. Neoliberal reforms have particularly hampered the political participation of the poor “by decreasing their income, their access to politically relevant resources, and their overall capacity for political action” (Holzner, 2007: 96). Wages declined sharply due to the stabilization programs of the 1980s. The real value of the minimum wage in Mexico City declined from the indexed value of 123.2 in 1982 to only 48 in 1993. Declining incomes mean that the opportunity cost of political participation is higher than during the prereform eras. And interviews with the poor suggested that the cost of attempting certain kinds of political activity was becoming prohibitive for many of them.

The implications of this analysis could not be more clear: if the reduction of income among the poor due to free market reforms has resulted in less participation and by extension a weakening of democracy, a wage policy that at a minimum provided relief to the poor and potentially moved them into the middle class might well lead to greater participation, thereby strengthening democracy. This was clearly the implication of Levin-Waldman’s (2013) study of the effects of income inequality on levels of civic participation. Still, to talk about how the minimum wage might serve as a tool for greater democratization is perhaps to give it a status that is in fact contrary to the logic of free markets. Also questioning the logic of free markets, Noah Zatz (2009) raises the question of whether the minimum wage should perhaps be considered a larger civil right. To a certain extent, the language of procedural democracy assumes that individuals as equals in standing before the law do enjoy certain basic civil rights. The implication is that without respect for the basic civil rights of voting, free speech, due process, and the right to pursue one’s interests based on one’s human agency, democracy is nonexistent, even if nominal elections are being held. Zatz asks the question of whether minimum wage law serves to protect the civil rights of workers. In other words, is it necessary to have a wage floor to protect their civil rights, and if so would a more general wage policy be a necessary and sufficient condition for such protection? Zatz would also like to move the minimum wage debate away from the standard opposition between those arguing its unemployment effects on the one hand and those arguing its antipoverty benefits on the other. Rather, the minimum wage should be seen as a policy that aims to heal an injury to workers’ civil rights, and to the extent that this may be true, the current debate over the minimum wage is misinformed. While “civil rights” are most often identified with antidiscrimination law, they are more broadly associated with legal responses to inequality and subordination along the lines of socially significant group differences. Many may see disparities as being inconsistent with a commitment to human equality, which is as good a watchword for antidiscrimination law as any. As the lowest paid workers tend to hail from groups central to antidiscrimination projects, it would appear that their status as low-wage workers means that they are not being treated on an equal footing with others, and certainly not with those having more resources.

One approach to justifying the minimum wage that has been obscured by a focus on antipoverty arguments is that it offers a corrective to defects in the wage bargain between employers and employees. As Zatz (2009: 7) puts it: “In its most stylized form, the minimum wage remedies employer theft. If an employer refuses to pay a worker the agreed-upon wage for work performed, the employer is a thief. The same is true if the employer forces the worker at gunpoint to agree to work for no wage at all or tricks her into the same. Furthermore, it can make no fundamental difference if what the employer steals is not the entire wage but only some fraction of it.” Nevertheless, what matters most about the minimum wage is that it is no defense to show that the employer simply pays the going rate in a complex competitive market. The “inequality of bargaining power” provides the moderate alternative to the labor theory of value. What a minimum wage does is to enact a presumption that when wages fall below a certain level, they are low for morally arbitrary reasons. Therefore, mandating a higher wage brings us closer to a world of fairness. Or at a minimum, it may serve to place some on an equal footing with others, and in this light it becomes a civil rights issue in a broader sense. James Galbraith (1998), too, has couched the minimum wage in terms of affording low-wage workers some monopoly power in the labor market, which, in the absence of either union coverage or a minimum wage, they lack.

In the early twentieth century, Sidney Webb (1912) argued for a minimum wage on the grounds that it would increase efficiency. Better paid workers would be able to take better care of themselves, their morale would improve, and consequently they would be more productive, thereby increasing efficiency. But employers would also have an incentive to better train their workers, so that their workers’ enhanced value would justify the higher wages. Bruce Kaufman (2009), however, points out that both Sidney Webb and his wife Beatrice Webb were also concerned about the social costs of paying low wages. The Webbs believed that a minimum wage would lead to both efficiency and fairness. The Webbs’ case for the minimum wage was built on two main pillars: the doctrine of labor’s *inequality of bargaining power* (IBP) and the doctrine of *social cost of labour* (SCL). IBP holds that employers individually and/or collectively enjoy a power advantage in wage determination, even in what we would consider a competitive labor market. Employers make up one group that benefits from extra-low wages in labor markets. But employers are not the only beneficiaries. Consumers, and especially affluent consumers who have a disproportionate share of income, also benefit from low wage labor, in the form of lower prices. One social rationale for a legal minimum wage, as Kaufman (2009) points out, is that it offsets the workers’ weak bargaining power in the labor market. Therefore, IBP creates a social rationale on efficiency and fairness grounds for state abridgement of freedom of employment contract. When the SCL doctrine is added to this, the argument for a legal minimum becomes stronger and the traditional neoclassical opposition to it becomes weaker. Neoclassical economists typically treat the social costs arising from production processes where product prices are low and output is high as

negative externalities arising from an absence of property rights for, in this case, the workers.

The innovation of the Webbs and American institutionalists was to apply the negative externality concept—missing property rights—to the employment relationship, in order to develop a positive rationale for both legal minimum wages and collective bargaining. Their argument rests on the assumption that labor—human capital—as is the case with physical capital, requires some minimum ongoing expenditures for upkeep, repair, and depreciation. That is, if product prices are to cover the full costs of production, then firms must pay the workers a wage sufficient to cover their individual and family subsistence costs, or provide in-kind compensation. But when the wage falls short of subsistence level, the social costs exceed the private labor costs borne by the firm and its customers. “In this case, either someone else bears this expense, or, socially viewed, the nation’s stock of human capital starts to depreciate and wear out” (Kaufman 2009: 313). At a minimum, each worker requires a level of health care sufficient to cover physical and mental wear and tear. A minimum wage, then, is seen as a contribution to solving the social cost problem, with far greater efficiency and fairness than competition and *laissez-faire*. The idea is to use the minimum wage in the labor market as an approximation to the social cost of labor. A minimum wage, then, serves to end the social subsidy to otherwise parasitic firms.

This would seem to suggest that the absence of a wage policy, effectively resulting in society bearing the social costs so that a few producers can derive benefit, is inherently antidemocratic. Society bears the costs for the benefit of a few. Establishing the floor, however, may not be enough. It needs to be maintained through a more generalized wage policy. If we apply Kaufman’s analysis to Holzner’s (2007) study of market reforms in Mexico, it becomes clear that paying low wages not only imposes social costs on society but also effectively excludes an entire segment of the population from the democratic process because it effectively denies them voice. Democracy cannot survive if increasingly more workers, because of the dual nature of the economy, are denied voice and in effect their civil rights. At a minimum, each individual and/or organization must bear responsibility for those conditions and circumstances that undermine democracy. A wage policy would thus go a long way toward achieving greater democratization. There is a traditional view of costs—higher prices and potential disemployment effects—predicted by the standard textbook model of the minimum wage. But the problem is that the debate over the minimum wage has focused on this traditional analysis and not really considered the other potential social costs.

Perhaps there is also the larger context in which the emphasis on growth has been occurring, namely, the stagnation of American wages and growing income inequality. Frank Levy and Peter Temin (2010) tell us that the United States’ “Golden Age” lasted from 1947 to 1973 and that its central feature was upward mobility. Individuals saw sharply rising incomes through much of their careers, and each successive generation was living better than the previous one. But

between 1980 and 2005, while productivity increased, wages stagnated. While business productivity increased 71%, the median weekly earnings of full-time workers rose only 14%, from \$613 to \$705. Levy and Temin suggest that a useful way to explain why significant productivity growth since 1980 did not translate into growth in earnings is the declining bargaining power of the average full-time worker. Although there is a general consensus that this declining bargaining power is attributable to skill-biased technological change, they reject this consensus, arguing along with Stiglitz (2012) and Hacker and Pierson (2010) that recent public policy has had much to do with it. Unemployment during the Great Depression was concentrated among the less educated and less skilled members of the labor force. It was largely for those workers that the New Deal set up a new structure of institutions and norms. The result was a decline in income inequality, and this was reinforced by the wage controls of World War II. The period of stability in income inequality in which wages rose with national productivity for a generation after World War II, was not a function of free markets alone but was tempered by public policies that were rooted in the Great Depression and the New Deal. Levy and Temin refer to these policies as the “Treaty of Detroit,” which during the 1990s was replaced by a set of policies known as the “Washington Consensus.” The obvious implication of this consensus is that income inequality is a function of individuals lacking sufficient value to command higher wages because they lack skills. And yet, this implication merely rationalizes inequality, of which the social costs have been tremendous.

POLICY FOR A DEMOCRATIC SOCIETY

While a wage policy, especially in the form of a minimum wage, may be an essential ingredient in the maintenance of democracy, democratic society perhaps has an obligation to do more to foster greater participation among low-income workers. A wage policy that moves them into the middle class is certainly one way of doing this, but there are other things that could be done as well. We know that, in addition to individuals coming from high income households, those with high levels of education are more likely to be civically engaged (Levin-Waldman, 2013). They might be even more engaged if they were assured of certain benefits in the future (Campbell, 2002; Mettler, 2002, 2007). A wage policy is not confined to a minimum wage but can include unionization—another labor market institution designed to bolster wages by giving workers voice. This could also involve more employee ownership options. Organizing workers, particularly low-wage workers, would be important for a variety of reasons. First of all, it would give them a form of voice, not only in the workplace through collective bargaining but in their communities as well. Unions have certainly served as an important constituency for public policies that would benefit both low-wage workers and the middle class. Historically, the minimum wage tended to be increased when unions, as its chief constituency, were supporting wage increases. But, as union

membership declined, the constituency behind increases was no longer there, and Congress had less incentive to provide them (Levin-Waldman, 2001). But unions also served another function: they provided their members with more social capital. Union members have traditionally tended to be more involved than other workers in the civic affairs of their communities. Labor unions in particular provided the most common organizational affiliation among American working men. Among the traditional benefits of labor unions in terms of civic engagement is the fact that they often got their members out, at a minimum, to vote, in part, because they could impress upon them the impact of electoral outcomes on policies of import to workers. Unions were on the front lines of every economic battle of the mid twentieth century. During the 1960s, labor's influence was actually expected to grow. Hacker and Pierson (2010) note that as late as 1970, it was expected that union voter drives would transform the American electorate. As a result of declining union representation in the workplace, however, income inequality increased. Fewer union members meant that fewer union voters were motivated to get to the polls and vote for candidates favorable to organized labor. Although unions have been in decline, professional organizations have proliferated (Nissen, 2010; Putnam, 2000). But they do not necessarily provide an equal replacement for unions, as the two tend to represent different groups, often at opposite ends of the income spectrum. Organizing low-wage workers, then, may be necessary not only to give them a greater voice but to give them a greater understanding of themselves as stakeholders.

Another important step that a democratic society could take to get low-wage workers involved is to invest more in worker education programs that could be provided through employers as on-the-job training. The literature on returns to education already makes it clear that increased education leads to higher wages, presumably because education increases skill levels and thereby increases employee value to the employer (Levy & Murnane, 1992; Tyler, Murnane, & Willett, 2000). In 2010, American industry spent \$171.5 billion on workforce education and development. On an individual employee basis, companies were spending an average of \$1,228 in direct expenditures per employee. In all, 4% of the total expenditure was designated for "Basic Skills" and 7% for "Interpersonal Skills" (American Society for Training and Development, 2011). This would suggest that at least 11% or \$18.9 billion was being spent on training low-wage workers. And yet, further such investment is still needed, for example, to develop social capital among low-wage workers. Therefore, as a policy measure, worker education and training tax credits might be offered to firms to encourage them to provide further basic training for their workers. This approach has obvious connections to a wage policy approach, and it is by no means mutually exclusive of making greater efforts to organize low-wage workers.

Critics of the minimum wage will, of course, argue that it is coercive and that employers are not receiving value in exchange. But by investing more in worker education and training, employers would be adding value to their employees. This

is turn would encourage employers to pay higher wages in recognition of the higher skill level of their employees. Having invested in their workers, employers would want to keep their workers and would pay a higher wage to give them an incentive to stay. Wage policy would in effect be likened to a form of efficiency wage, whereby employers would now have a greater incentive to invest in the human capital of their workers to get greater value out of them. Institutional economists identified this as the “Webb” effect because it would result in workers becoming more efficient, thereby increasing productivity. Later economists also recognized that higher wages could be efficiency-producing wages. The encouragement of worker education and training could be aided by efforts to organize more workers. As part of collective bargaining, unions could in turn push for worker education programs. As much progressive legislation has historically come about from the lobbying efforts of organized labor, unions might want to begin lobbying for policies that will be beneficial to both workers and employers. It isn't that unions should all of a sudden care about employers; rather, they should perhaps carve out a new role of partnering with business in the interests of ultimately propping up the middle class. And this process could begin with efforts to move low-wage workers into the middle class. Efforts to organize more low-wage workers along with the provision of targeted tax breaks for worker education and training would be a good place to start. Moreover, this could serve the goal of economic development, which is essential to the maintenance of democracy. Because rising wages would lead to an increase in the effective demand for goods and services, they should in turn lead to the creation of additional jobs.

CONCLUSION

Given the essential components of democratic theory, mainly equality and autonomy, a wage policy, to the extent that it furthers those components, can certainly be said to accord with democratic theory. Any policy that in any way enhances autonomy, by at a minimum conferring greater dignity on individuals, and more, enabling them to participate more fully as full-fledged citizens, is ultimately serving a democratic purpose. Wage policy is critical to the ends of democracy for the following reasons: First, through the additional security it affords workers through higher wages, especially at the bottom of the distribution, it enhances personal autonomy, and enhanced personal autonomy can allow for greater participation in the public sphere. Individuals who earn enough to live above the poverty line feel better about themselves and are more inclined to become more productive. They are more productive by virtue of their ability to better maintain themselves. Second, to the extent that wage policy reduces income inequality, it results in less strife and fewer threats to democratic society. Third, wage policy is part and parcel of economic development. Through the increased purchasing power it affords, individuals are able to demand more goods and

services, which in time may fuel investment and economic expansion. Economic development is central because it is the basis for a broad middle class, which, in and of itself, militates against a dual distribution composed of those at the very top and those at the very bottom. But economic development is also about developing and enhancing individual autonomy. As Sen (1999) has observed, it is the process by which the freedoms that people enjoy are improved, and individuals can be free only in a democratic society. Aside from wage policy itself, efforts to organize low-wage workers and the provision of worker education training credits could have the effect of developing the capabilities of low-wage workers, thereby making them more autonomous and better able to participate in democratic society.

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