



RESTORING THE MIDDLE CLASS THROUGH WAGE POLICY

Arguments for a Minimum Wage

OREN M. LEVIN-WALDMAN



Binzagr Institute for Sustainable Prosperity

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Restoring the Middle Class through Wage Policy

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PREFACE

When the history of the 2016 election is written, there will no doubt be a number of interpretations offered for why Donald Trump, a politically inexperienced businessman and reality TV star who never held office, defeated former first lady, senator, and Secretary of State Hillary Clinton. As the left focuses on the anger of white blue-collar working-class America, an anger tinged with racism and xenophobia, the right is quick to point out that the electorate was simply sick of the identity politics being offered up by Democratic Party elites who felt they knew better than the public what was good for it. Perhaps the interpretation that will get the most attention is that this was the election in which the Democratic Party long the party of working-class Americans all but forgot about the middle class. It is true that Clinton's challenger in the primaries, Senator Bernie Sanders of Vermont, attempted to focus on the plight of those who have been forgotten by arguing for a \$15 an hour minimum wage, a single-payer health-care system, and free college tuition. Still, during the campaign for the general election, nobody really discussed the middle class. During the primaries there had been some scant discussion about the rise in income inequality, but nobody really came out and explained why it was so significant. For the left, it simply meant that the wealthy were not paying their fair share, and therefore the way to redress the problem would be through more taxes on the wealthy to buy more programs for the benefit of the poor. For the right, of course, this only meant that we are in a dynamic global economy and further growth only requires greater flexibility on the part of workers.

What became clear is that much of the anger among those who voted for Trump was due to an economy that left them with little opportunity to live a middle-class lifestyle. Wages had been stagnant for decades. The manufacturing base had been decimated. The only jobs that were being created were either at the bottom of the income distribution in the low-skilled service sector or at the top of the distribution in the highly skilled technology sector, or among the professions. The rise in inequality, which could just as easily have been dismissed as nothing more than an oversupply of low-skilled workers driving down wage rates and indeed was by conservatives, really spoke to a reality that few wanted to address: the disappearance of the middle class. And yet, while Trump didn't really speak to the issue of the middle class and how best to shore up the middle class, he did seem to understand the issues facing blue-collar workers, or at least they thought he did.

Much has been made about how despite winning the Electoral College Trump still lost the popular vote. The three states that made the difference were the blue states of Wisconsin, Michigan, and Pennsylvania, which nobody could have imagined going to Trump. Clinton simply assumed that they were in the bag; so there was no need to go there and campaign. Trump actually campaigned there and talked about bringing back good-paying jobs. When the history of this election is written, what might stand out the most is that the pollsters got it wrong. Not only did they get it wrong, but candidates that base their campaigns on traditional polling so they can better target their stump speeches may actually be in for a rude awakening. The only data that was really important was the changing demographics of the labor market, particularly those labor markets in Wisconsin, Michigan, and Pennsylvania. All that the Trump campaign needed to do was to look at the changing labor market demographics in those states to know that good-paying jobs in manufacturing had disappeared and were replaced with lower-paying service jobs. The demographics told the story of a two-tiered economy with a middle class that was disappearing.

Still, despite a campaign that appeared to be speaking to the needs of workers even with the apparent disconnect between them and the billionaire candidate, there has been little discussion about the middle class. This book is about how one policy, the minimum wage, might just be one approach to shoring up the middle class. The minimum wage has long been a controversial issue in the economics literature. It has also been a hot political issue largely because its effects on certain groups, mainly employers and those earning around it, are greater than commonly supposed.

Those opposed to the minimum wage have long argued that a minimum wage results in lower employment because employers will either lay off workers, substitute technology for workers, or simply not hire new workers in the future. Therefore, a minimum wage particularly hurts low-skilled workers who are more likely to lose their jobs. Moreover, the percentage of the labor market that actually earns the statutory minimum wage is quite small, and those who do are primarily teenagers and/or other secondary earners. Since the majority of minimum wage workers are not primary earners or heads of households, it really is for all intents and purposes a non-issue.

Those who argue for the minimum wage focus their efforts primarily on the poor, arguing that a higher minimum wage will assist the poor by raising their wages. Moreover, it might reduce income inequality somewhat. And yet, if the minimum wage is such a non-issue, then why does it engender the degree of political opposition it typically does? Because the opposition only argues the benefits to the poor it is easy to ignore the beneficiaries because of a common tendency to stigmatize. But the opposition over a seemingly trivial non-issue would appear to be an acknowledgment that the minimum wage really does benefit more than simply those who earn the statutory minimum. Surely, it must benefit those who earn around the minimum wage—the larger low-wage labor market that we can refer to as the “effective” minimum wage labor market—because those earning in wage ranges immediately above those earning the statutory minimum will also need to get increases, as well as those in ranges above them. In other words, there may be ripple effects, or what we will in the pages to follow refer to as wage contour effects.

How the minimum wage and its effects are couched in many ways underscore E.E. Schattschneider’s (1975) famous observation that politics revolves around conflict, of which there are two sides: actors and spectators. Some actors might seek to localize the conflict by narrowing the focus. This is precisely what opponents of the minimum wage do when they claim that only a small group earns the minimum wage and that they really aren’t important. If one side is supposed to be localizing the conflict, the other should be seeking to tip the scales in its favor by socializing it. And yet, to date it is not clear that supporters have been doing a good job at it. By focusing on the benefits to minimum wage earners, they also maintain a narrow focus. Were they to view the statutory minimum wage as a reference point for the larger low-wage labor market, they would actually be talking about an effective minimum wage population, in which case

the conflict will have been socialized. Of course, it might be that opponents understand that the effects are larger; otherwise why would they seek to keep the conflict localized.

If the benefits are larger than commonly assumed, then the minimum wage is either the most underrated policy utilized, or it is well understood by its opponents who are nonetheless adept at couching their opposition in the language of the public interest, that is, concern over adverse employment consequences. A policy that serves to effectively raise wages up the distribution is one with positive welfare effects and one that can serve the interests of the middle class. The minimum wage, as I will argue, is a middle-class issue and, as a traditional labor-management issue, always was. If a middle-class issue, is that it results in greater aggregate demand because of increased purchasing power, it also can serve as a foundation for job creation.

I am by no means suggesting that the minimum wage is a panacea for our economic woes or that it alone will restore the middle class. Raising the minimum wage is certainly not going to make us all equal, but it will reduce the growing gap between the top and the bottom in the distribution. It might slow down the rise in income inequality. Rather if a regular increase in the minimum wage might serve to exert an upward pressure on wages through the distribution, then its potential for positive welfare effects cannot be discounted. It is certainly a tool in the larger policy arsenal that should be included. And yet the larger issue is that public policy should be centered more on the middle class rather than simply assisting the poor. Because arguments for the minimum wage have long centered on aiding the poor, it has been easy to discount the minimum wage because, in the view of most neoclassical economists, most earners of the statutory minimum are not poor. Of course by focusing the debate so narrowly it has also been possible to obscure some of the larger benefits to society that would also certainly adversely affect the interests of those who would then be forced to pay their employees more.

In the public discourse, no employer, after all, is going to come out and say that he opposes the minimum wage because he wants to selfishly keep as much of his profits to himself. Rather, he will couch his selfish interests in terms of the public interest and argue that the minimum wage might therefore be harmful to the public interest because it will have employment consequences. Is it not more civilized to demonstrate your concern for the unemployed when the real concern is to maintain higher profits by paying workers as little as possible? For those who earn above the minimum

wage, it is difficult to understand how the minimum wage can affect them. Therefore, their support for the minimum wage becomes an exercise in compassion for the poor. The political problem here is that policies intended to assist the poor do not garner as much support as those policies intended for the middle class. This may have something to do with a tendency to stigmatize the poor. And yet, when the neoclassical economist argues that the answer to low wages is for the poor to seek the education and training necessary to command higher wages, he is stigmatizing the poor. After all, it is the poor's fault that they lack the skills necessary to command higher wages. Therefore, the onus is on them to acquire those necessary skills. And if the onus is on them, there can be no justification for government imposing a mandatory wage floor, especially if it could in the process have adverse effects.

The minimum wage as a middle-class issue is also an example of what Martin Gilens (2012) calls "targeting within universalism." By couching an issue in broader terms, it will garner much more political support. But it isn't just about making an effective political argument. It is also about demonstrating with data that this is an issue that will indeed benefit the middle class. This is important because so little policy in recent years has been about the middle class. Even when policy is aimed at the economy, it assumes either fiscal or monetary form. With fiscal policy, policymakers are often offering tax cuts in order to stimulate investment. And with monetary policy, they are playing with interest rates ostensibly for the same purpose. None of these policies focus on the middle class per se because neither one includes the need for a serious wage policy to keep wages rising.

If the middle class is in decline it may be for several reasons: First, there have been economic transformations whereby manufacturing has been replaced with services with highly skilled and educated workers at the top and an oversupply of low-skilled and poorly educated workers at the bottom. Second, labor market institutions that served to bolster middle-class wages and in fact created the blue-collar middle class, like unions, have been in decline. The minimum wage is also a labor market institution whose value has deteriorated due to inaction. Third, wages have been stagnant for more than four decades now, in part because of declining labor market institutions and also in part because of rising health insurance premiums that have eaten into the wage bill. There is a school of thought that maintains that the decline in the middle class is the result of public policies that have resulted in the wealthy becoming even wealthier at the expense of everybody else. It may be too extreme to say that policymakers set out to

target the middle class, but in allowing certain labor market institution, like unions and the minimum wage, to deteriorate policymakers may have in effect aided and abetted those forces that contributed to the middle class' decline. That is, certain so-called natural market forces were exacerbated by public policy decisions.

This book has been many years in the making. It now represents the fifth book that I have written on wage policy. It has been more than 16 years since I published my first book (2001) on the minimum wage where I argued that the minimum wage is at root a political issue and has tended to increase when there was a strong constituency supporting its increase. That constituency was organized labor and when organized labor declined in terms of union membership, the minimum wage effectively stagnated. Although I (2011) introduced the idea of wage contours and positive welfare effects a decade later in *Wage Policy, Income Distribution, and Democratic Theory*, the main premise of the book was that a wage policy would be in keeping with democratic theory. In this book I am specifically pulling together bits and pieces of work I have done, mostly since *Wage Policy, Income Distribution, and Democratic Theory* and arguing that in the end the minimum wage would do more than commonly supposed to restore the middle class. Not only would it boost the incomes of many throughout the distribution through wage contour effects, because it would increase aggregate demand for goods and services, it also serves as a foundation for job creation. I realize that I am making an argument contrary to the neoclassical orthodoxy, but it is only when we view the issue through a different prism can we see what is really at stake. Also the orthodoxy reigns supreme because not enough people challenge it, largely because the conflict is viewed within the prism of those interests that are served by localizing the conflict.

I have benefitted from conversations with many people over the years. Portions of the manuscript were read by my friend and colleague the late Robert Prasch. Charles Whalen read portions and offered many suggestions, and indeed these were issues we discussed greatly over the years. Also anonymous reviewers offered their comments which surely improved this manuscript. All comments received have no doubt made this a better manuscript, but I bear sole responsibility for the errors or omissions remaining. I want to thank the editor of the *Journal of Workplace Rights* (Sage Open)—Joel Rudin—for permission to reprint pieces that appeared in those pages: “Wage Policy as an Essential Ingredient in Democratic Society” 17, 1 (2014), and “Is Wage Inequality Designed or Preordained?”

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CHAPTER 1

Introduction

On Labor Day 2013 fast-food workers all over the US went out on a one-day strike for a \$15 an hour minimum wage. Since then, fast-food workers have continued to engage in sporadic daily strikes for a minimum of \$15 an hour. Meanwhile, over the last several years several states have either adopted a minimum wage higher than the federal minimum wage of \$7.25 an hour or have raised their existing ones. Currently, at least 29 states have minimum wages that are higher than the federal minimum, and of them 16 have adopted a mechanism for their automatic adjustment so that they can keep up with inflation and no longer lose value. Additionally, several localities have legislated \$15 an hour minimum wages, which in many cases will fully take effect by 2020. All of this clearly speaks to three trends. The first is that the minimum wage has failed to keep pace with inflation. Historically the minimum wage tended to be set at 50 percent of average annual hourly earnings. In 2015 it was only 28.9 percent of an average annual hourly wage of \$25.08. In 1968 the minimum wage adjusted for inflation was the equivalent of \$10.97 an hour in 2015 dollars. In 1968 a minimum wage earner was at 106 percent of the federal poverty level, but in 2015 it is below 80 percent.

The second trend, and not unrelated to the first, has been increasing income inequality. Nobody believes that an increase in the minimum wage will make us equal by any stretch, nor is that really the goal. And it certainly won't address what many have observed as the pulling away of the

top from the rest of us in recent years (Piketty 2014; Stiglitz 2012; Hacker and Pierson 2010). But the rate of increase would clearly be less. Much of the literature suggests that wage inequality will be less, specifically in the lower tail of the distribution—the 50/10 percentile ratio (Belman and Wolfson 2014). Even those who reject the revisionist literature that the decline of labor market institutions has contributed to growing inequality because of the pulling away of the top do acknowledge that they do affect the lower tail of the distribution (Autor et al. 2008).

The third trend is that wages overall, especially among the middle class, have been stagnating for more than three decades. If nothing else the protests for a \$15 an hour minimum reflect a level of frustration with an economic system that appears to reward CEOs with compensation packages worth millions while workers struggle to make ends meet. But it also appears to reflect a level of frustration with a political system that often seems helpless if not totally oblivious to the concerns of not only low-wage workers but the middle class generally (Bartels 2008; Gilens 2012). These protests, then, need to be placed within the context of a growing “chasm” between the very top and the rest of us (Smith 2012), or what some refer to as increasing polarization due to rising inequality and the skewed politics toward the extreme wealthy that has come from that inequality (McCarty et al. 2008).

STATE OF THE CURRENT MINIMUM WAGE DEBATE

Much of the current debate over the minimum wage has revolved around employment consequences. Critics of the minimum wage have tended to focus on the employment side while supporters of the minimum wage have focused on the benefits of pay increases specifically for those in poverty. The debate in short has amounted to a contest between those arguing the employment consequences versus the anti-poverty benefits. Moreover, those arguing the employment consequences have focused specifically on teenagers, largely because for many years they constituted the majority of minimum wage workers, or at least those earning the statutory minimum. While this may have been true at least as late as three decades ago, it is less so today. Nevertheless, since the report of the federal Minimum Wage Study Commission was published in 1981, it has been the conventional wisdom that a 10 percent increase in the minimum wage results in a 1–3 percent reduction in employment among teenagers.

The same commission did find employment consequences to be considerably less among adults.

Still, much of the literature on the employment consequences focused specifically on teenagers. Beginning in the mid-1990s, however, following studies of the fast-food industry by David Card and Alan Krueger (1995a, 1998), and particularly after 2000, with the New Minimum Wage Research, as Belman and Wolfson (2014) call it, much doubt has been cast on the conventional wisdom. It isn't that all studies have been found to be incorrect, rather because the focus has only been on teenagers, the data on the minimum wage has been skewed when applied to older workers and when factoring in issues of heterogeneity (Dube et al. 2010; Allegretto et al. 2011). Because the data only focus on specific segments of the labor market, the overall conclusions that can be drawn from them are ambiguous. That is, the effects are incomplete. While we are told that some groups may bear costs in the form of job loss, we are being told that other groups may derive benefits and that on the whole in a calculus could outweigh the costs. Critics claim that there is no reason to look at adults when most minimum wage workers aren't adults, but are teenagers. To the New Minimum Wage Research they respond that the minimum wage is so much below a market-clearing wage that it could not possibly have an effect. Those that argue for the minimum wage often assert that the minimum wage is too low because it has failed to keep pace with inflation. The critics who acknowledge that higher minimum wages haven't had an effect on employment because they are still below market-clearing wages are ironically acknowledging the supporters' point that the minimum wage is too low.

Still, critics maintain that the minimum wage is a poor tool for assisting the poor because most minimum wage earners are not poor (Burkhauser and Finegan 1989; Sabia and Burkhauser 2010). On the contrary, they are secondary earners in that they are either teenagers in their parents' households or spouses of primary earners. And yet to refer to them as secondary effectively trivializes them because they are now placed in a category of other whereby their contributions are deemed to be unimportant (Schneider and Ingram 1993). If they are unimportant or only contributors to a household rather than principal household supporters, then there is no need to raise their wages, especially if there may be negative employment consequences.

The more poor people who can be categorized as unworthy, the less responsibility society has to care for their well-being. The neoclassical synthesis, in short, assumes a minimum wage to be inefficient, in part, because it isn't necessary. If the minimum wage was primarily benefitting teenagers and not benefitting those working to support a family, what was the logic of the minimum wage at all? It was simply irrelevant. At the same time, it was irrelevant because it did not bear on the poverty rate. Moreover, for those minimum wage earners who are poor, the minimum wage will only hurt them because employers will likely respond by substituting technology for low-skilled workers, who are disproportionately among the ranks of the poor. Of course, all of this makes sense if these are indeed the demographics of the low-wage labor market. But by focusing on this narrow construction, we are missing the larger low-wage labor market that may also be affected by the statutory minimum wage.

The narrow focus of the debate has really obscured what the minimum wage is really about, and that is the middle class. This book is about the minimum wage and the middle class. To suggest that the minimum wage is ultimately a middle-class issue would strike most as rather counterintuitive. After all, how can a wage that is so far below that of most middle-class workers really affect them? Although the minimum wage was certainly intended to raise the wages of those at the bottom of the distribution, it was also intended to be more. At a minimum, it was intended to give low-wage workers a measure of bargaining power they otherwise lacked because of the asymmetrical power imbalance between them and their employers. Because there was now a floor, there was also a limit to how much they could be exploited. But it was also viewed as a means to expand purchasing power, which would also be good for the economy. Historically, however, the minimum wage was a labor-management issue whose expected benefits would be increased efficiency, an expansion of purchasing power, and ultimately greater demand for goods and services.

One wonders how it is that a non-issue like the minimum wage which only 2 percent of the labor market actually earns could ruffle the number of feathers it does whenever the issue comes up for public debate. The issue often elicits the most intense animosity from its opponents. In this book, I argue that the effects are much larger than the current debate would suggest. To relegate the minimum wage labor market to the 2 percent that actually earns the statutory minimum wage is to obscure a growing problem in the USA. That is, the "effective" minimum wage labor

market—those that earn in wage ranges around the statutory labor market—has grown considerably over the last three decades and now comprises almost a fifth of the American labor market. Although this “effective” minimum wage labor market is still dominated by those lacking in skills, their levels of educational attainment are higher now than they were more than 30 years ago. Moreover, these workers are also older.

That a growing segment of the American labor market is now among the ranks of the effective minimum wage population no doubt speaks volumes to the changing economic base of the economy. What has often been missed here is that with increased globalization and the emergence of a two-tiered economy with highly educated and highly paid workers at the top of the wage distribution and poorly educated and poorly paid workers at the bottom, the growth of this “effective” minimum wage population has to be seen as a manifestation of the disappearing middle class. In recent years various authors have written about the business community’s assault on the middle class through deliberate public policy decisions that have resulted in a widening inequality gap between the top and the bottom (Smith 2012; Stiglitz 2012; Hacker and Pierson 2010). I am not as concerned about how we reached this point as I am about where we go from here. In the pages that follow I intend to show how the minimum wage, as but one tool in a larger arsenal of public policy revolving around middle-class economics, can be used to help restore the middle class. But this requires taking a broader view of the minimum wage.

In making this argument am I suggesting not only that economic policy models based on the neoclassical economic synthesis have been wrong, but that progressive policy that has animated much of the political left—indeed the contemporary Democratic Party—has been misguided. If we as a nation want to close the income gap, create a higher wage economy, and restore the middle class—which is also an essential ingredient in the maintenance of strong democracy—then we need policies that are based on what Martin Gilens (2012) calls “targeting within universalism.” This means that policy has to be couched in a way that it appeals to a broad spectrum of voters. The minimum wage can only have broad appeal if it is couched as a middle-class issue. If it is only an issue that affects teenagers who are not considered to be poor, it simply won’t resonate with most voters.

MIDDLE-CLASS ECONOMICS?

The public debate in recent years has been witness to voices about what best to do for America's middle class. On the one hand, there is the argument that policy skewed toward the interests of the wealthy has effectively resulted in what journalist Hendrick Smith (2012) calls the stealing of the American dream. Policies have been pursued that have effectively redistributed wealth and income to the wealthy at the expense of the middle class. There may be another school of thought that the decline of the middle class has been due to deteriorating families and values (Murray 2012). Some might, of course, take issue with this and maintain that at the end of the day it is about income.

Discussions about how to rebuild the economy and the middle class have revolved around the standard boilerplate solutions. The political left focuses on new programs financed through higher taxes on the rich while the political right recycles the standard *laissez-faire* policies of the past: lower taxes and reduced regulation. If government would simply unleash the marketplace, everyone would prosper. That everyone has not despite the Bush tax cuts and financial deregulation dating back to the Clinton administration is only taken as further evidence that government still regulates too much, the welfare state is still too big, and these two together have contributed to the moral hazard of workers being rigid when it comes to wage rates. Wage rigidity, in other words, and not market failure, is the reason for unemployment and the declining fortunes of the middle class. But it isn't just wage rigidity; it is wage rigidity in a global marketplace where new technologies are demanding that workers come to the table with advanced skills.

Low wages speak to the growth of the low-skilled labor market, which itself is the result of economic transformation. For this, market purists offer the explanation of a skills mismatch biased toward technical change. Rather than requiring employers to pay higher wages, workers should obtain the necessary training and skills in order to command higher wages. This, however, conveniently shifts the onus onto the workers. Worse, if workers are responsible for their lack of skills, then job creation isn't nearly as important as training and retraining. But as Gordon Lafer (2002) has argued, this has become a charade unto itself which has served to deflect attention from the real problem—that no serious policies aimed at job creation have been pursued. This would also appear to be a catch-22. Market purists argue that high wages hamper job creation. But more jobs

created would exert upward pressure on wages. It isn't hard to see, then, that for those who prefer a low-wage economy that job creation is really not a desirable goal. Better, then, to deflect criticism by shifting the discussion over to job training and worker deficits. At the same time, the political class that buys into the education and training argument often misses that more workers attaining more education and training may also, according to the same supply and demand forces that pushed down the wages of those at the bottom, similarly push down the wages of those at the top.

The political left responds that public policies favoring the wealthy have only made the rich richer at the expense of the poor. Capital mobility in an ever increasingly global economy has resulted in the flight of good-paying manufacturing jobs from first unionized states to right-to-work states where wage rates have been lower and second to developing countries where wage rates are only a fraction of what they are in the USA. Meanwhile, these high-paying jobs have been replaced with low-paying and low-skilled service sector jobs. As a result, we have a two-tiered or dual economy with highly paid and highly educated and skilled workers at the top of the wage distribution, and poorly educated and poorly paid workers with little if any skills at the bottom. And as a nation we are witnessing the disappearance of the middle class. Attendant to that disappearance has been a widening of the wage gap between the top and the bottom. In other words, increased income inequality, which can be attributed to a variety of factors, including both global market forces and the decline of American labor market institutions, has to be viewed as symptomatic of the new dual economy in which the middle class is ever becoming less of a presence.

From a policy stance, the Fed has been pursuing the standard monetary response of pumping money into the economy through a combination of lower interest rates, bond buying, and quantitative easing. Democrats in Congress have been pushing the standard fiscal policy model of economic stimulus either through increased public spending, through one-time tax rebates, or through extended unemployment insurance. Absent in all this has been a serious discussion of the role of labor market institutions in bolstering the wages of the middle class so that they can continue to demand goods and services in the aggregate. What has received short shrift, in other words, is a wage policy, which at a minimum needs to be pursued, alongside monetary and fiscal policy, if the middle class is to benefit.

Perhaps most disconcerting about the current debate is that there is really very little daylight between the right and the left. Both assume that the answer to the nation's economic woes is the same top-down approach

that has traditionally been taken. Whereas the right assumes that the Fed will continue to pump money into the economy through reductions in interest rates, the left assumes that the same effect can be had if only government invests more in the private marketplace. Both rely on massive investments to come from the top and flow down. Often overlooked, however, is that what drives an economy is aggregate demand for goods and services, and this requires that individuals have purchasing power that will enable them to demand goods and services in the aggregate. If workers cannot afford to purchase goods and services because their wages are too low, it matters little how low interest rates fall. Businesses are not going to simply create new jobs if there is no demand for their goods and services. An economy, in other words, grows from the bottom up, not the top down. Raising workers' wages will do more to grow the economy than either tinkering with interest rates or spending massive amounts of federal dollars on new programs. Moreover, it would be consistent with the grassroots spirit that built up the nation in the first place.

It would also decrease dependency on government programs. In a report from the Center for Labor Research and Education at the University of California at Berkeley, Ken Jacobs et al. (2015) observe that low wages cost the country \$152.8 billion a year in social expenditures—subsidies to the working poor via food stamps, housing vouchers, and other supports—paid for by taxpayers. Although paying workers low wages means reduced prices for consumers, we all ultimately pay for it through increased taxes for government programs. Another way to look at this is that subsidies to low-wage workers are effectively subsidies of their employers' profit margins. Minimum wage supporters during the early part of the twentieth century made a big deal out of what were referred to as parasitic industries. Progressive reformers maintained that firms paying less than that which was necessary to support their labor in dignity were essentially parasites on the community because the difference ultimately came from someplace (Lehrer 1987).

The parasitic-industry argument proved to be a powerful tool for those seeking to establish a minimum wage specifically for women. By adopting this analysis, reformers were able to offer two separate explanations for the existence of low wages. The first explanation had to do with the comparative disadvantage that unorganized individual workers had with their employers when it came to bargaining. The second explanation was that employers paying low wages were simply taking advantage of their workers' vulnerable position, which made them parasites on society because

they were effectively receiving a subsidy from the community. Parasitic employers who paid less than the true social costs of labor could undersell their competition. Moreover, they would not be motivated to lower their costs through innovation or organization or production techniques (Power 1999). But studies like the one from the Center for Labor Research and Education only demonstrate in stark economic terms how much these employers are parasites on the body politic.

The question that arises is why Americans don't see that they are really subsidizing the profits of low-wage employers. That we are all paying to subsidize low-wage workers could be said to fall into Theodore Lowi's (1964) definition of distributive politics, whereby each group in society gets something and we all pay for it. Ironically, however, it isn't so much that the poor are deriving benefits from these subsidies as it is that their employers, who now have further incentive to pay low wages because they know that their low-wage workers will indeed be subsidized. But the report also suggested that it was a \$15 an hour minimum which was the point at which dependency on those subsidies would be diminished. When coupled with the New Minimum Wage Research that suggests the negative employment consequences predicted by the standard model aren't really there, this perhaps ought to be the point where we as a society seriously question the direction of economic policy in recent years.

For some, middle-class economics is about reducing income inequality, especially by imposing new taxes on the wealthy. This issue isn't nearly as monolithic as is often presented. Income inequality is an amorphous concept here. Wages and income are not the same. While income may include wages, income can include dividends and savings at the upper end of the distribution and income supports at the bottom of the distribution. Therefore, when comparing top wages to bottom income the ratio may not be nearly as great as the ratio between top wages and bottom wages because those at the bottom are receiving supports. But a comparison of the top to bottom shows the ratio to be larger still because those at the top have income from stocks, bonds, and other investments. Another issue is before-tax income and after-tax income. Overtaxing income at the top of the distribution may reduce the ratio between the top and the bottom, only because the after-tax income of those at the top has been reduced, but this does not mean that the after-tax income of those at the bottom has risen. In other words, reducing inequality may not necessarily be the same as assisting the middle class.

While the political left will no doubt argue that the wealthy have benefitted at the expense of the poor and the middle class, there is some truth to what they are saying. First, they point to the growth in the economy during the 25-year period following World War II when marginal tax rates were 90 percent. Second, they argue that income inequality has resulted in a political system skewed to the interests of the wealthy—only resulting in policies that tend to be less favorable to the middle class—and the only way to address this problem is to take steps to redress this imbalance. Since many of the wealthy became wealthy due to tax cuts that effectively redistributed income from the bottom and middle to the top, it only makes sense to redistribute from the top to the bottom through higher taxes on the wealthy. But this approach might also assume too much.

Taxing the top will reduce income inequality in that the ratio between after-tax income of the top and after-tax income of the bottom will now be less, but it doesn't follow that this will necessarily benefit those at the bottom. Unless, it is assumed that higher taxes imposed on the top will go to fund more programs that can boost the incomes of those at the bottom. But if the reduction of after-tax income of the wealthy intended to reduce inequality results in greater dependency on public supports at the bottom, is that really a socially desirable outcome? The goal of middle-class economics should be the boosting of incomes of the bottom and the middle. In other words, a rising tide that lifts all boats will also assist those at the bottom of the distribution. Let's assume for a moment that taxing the top can fund programs to assist—subsidize the low incomes of—those at the bottom. Contrary to fostering self-esteem, we are only deepening dependency. The American middle class was in part built on the American work ethic. But it was also built by labor market institutions that bolster wages. The first institution that made a difference was the trade union. Factory work in the late nineteenth century was no more skilled and dignified than many of the service jobs performed by low-wage workers today. Labor unions sought to give their members dignity in their work by fighting for wages that would be considered respectable. Prior to the advent of labor unions, there was little that wage labor did that was considered respectable (Glickman 1997).

Core to middle-class economics is shoring up the middle class by raising wages and creating jobs through the increased purchasing power that will attend to higher wages. The approach to job creation over the last few decades has done anything but. On the contrary, it has been assumed that money pumped into the economy through monetary policy would

result in jobs flowing down from the top. During the Great Depression of the 1930s, there were jobs programs to put people back to work. But these programs were augmented by other programs intended to provide individuals with greater purchasing power. The purpose of Social Security was to provide the elderly with purchasing power so that they could demand goods and services. Even the objective of public assistance, virtually, non-existent before the 1930s, was to provide poor people with purchasing power. With the National Labor Relations Act of 1935 Congress legitimized collective bargaining on the understanding that workers who could negotiate better wages would have greater purchasing power. And the Fair Labor Standards Act (FLSA) of 1938 which created the nation's first federal minimum wage was similarly intended to boost the purchasing power of workers, thereby enabling them to demand more goods and services.

Economic policy during the 1930s was built on the assumption that for the economy to grow individuals needed purchasing power so that they could afford to buy things. Since the Reagan revolution beginning in 1981 and following the stagflation of the 1970s when a consensus seemed to emerge that Keynesian economics wasn't working, it has become the accepted wisdom that workers demanding higher wages actually hurt the economy rather than help it. Increasingly manufacturing left the country in search of lower wage rates. The term "wage rigidity" emerged to explain the failure of the economy to grow—workers were simply being inflexible in their wage demands. After all, the neoclassical synthesis always posited that in competitive markets there really was no such thing as unemployment because workers could always lower their demands to the point where employers would demand their labor services.

Keynes himself had been clear that it mattered little how low workers' monetary wage demands fell; their services would not be demanded if nobody was demanding their potential employers' goods and services. The apparent paradox here no doubt parallels Keynes' paradox of thrift. Workers will naturally not consume all of their income but will put some into savings for a rainy day. But the more they put away, the less they spend, which in turn will lead to a slowdown in the economy, inevitably resulting in their own layoff. In other words, the idea of putting away for a rainy day is that one won't really need it, but because everybody is doing it, it becomes inevitable that they will need it which in the end will only deplete their savings. This certainly applies to the logic of paying low wages.

Employment policy in recent years has essentially revolved around two main approaches. The first has centered on the assumption that the Fed would pump money into the economy by tinkering with interest rates. The second has centered on fiscal stimuli, whether it has been through tax reductions, rebates, or even big stimulus packages like the one passed in 2009. Nowhere in these approaches has there been a corresponding assumption that wages really need to rise. Consider for a moment Sidney Weintraub's (1972) argument that economic management without an "incomes policy" is simply insufficient to seriously create jobs. Fiscal policy, which often involves huge expenditures of public monies, often will not have the desired effects if not properly targeted. As an example, in 2003 Congress authorized \$300 tax rebates to individuals and \$600 rebates to married couples. To give a rebate to all taxpayers certainly fits the definition of equality as each receiving the same thing. From an efficiency stance, this stimulus was poorly targeted. Those at the lower end of the distribution into the middle no doubt spent the money, which was precisely the intent of the rebate. But those at the upper end of the distribution were less likely to spend the money. Many of them may have tossed the checks into savings. Although various interests will benefit from grants and contracts, the impact is not widely dispersed. Moreover, increased spending only necessitates new taxes.

Monetary policy by itself also has costs. The Fed by law serves the banking interests and its primary responsibility is to ensure the solvency of banks. As inflation rises, the Fed typically applies the brakes with higher interest rates and reserve requirements, which produces unemployment. At the same time, increased taxes due to increased spending will only lead workers to seek higher wages to pay the higher tax, thereby exacerbating inflation. For economists to apply the breaks, but who themselves would not be affected, was in Weintraub's view immoral. Rather the unemployed were essentially innocent lambs being led to their slaughter through otherwise conventional tactics. But if wages could be stabilized, price stability would then avert the economic damage otherwise occasioned by conventional stabilization tools. In other words, if the traditional tools of fiscal stimulus and monetarism were to be used, they then needed to be complemented with an income policy.

As radical as this might have sounded, it really wasn't that far removed from Milton Friedman's assumption about an "incomes policy," which for him was really a euphemism for wage restraint. Friedman actually advocated a steady growth of roughly 3 percent in the money supply to maintain