

conomic themes represent well-known principles. His argument that scarcity is an inalterable condition sounds much like the poor will always be with us. His urging applied economic research and analysis to improve material conditions perhaps means that we should show the poor due concern. His advocacy that incentive effects should be maximized might be taken to mean that we should not muzzle the ox treading out the grain. His support for private-property rights sounds much like Nehemiah's lament that we are powerless when others own our fields and vineyards.

Underlying faith may be the greatest value of Pejovich's capitalism-versus-socialism dialectic. As he describes these grand organic movements groping toward improved society, Pejovich gives witness to ontology, teleology, and eschatology that is fundamentally moral. While the faithless conjecture about post-peopled worlds, Pejovich's concern is the striving of people who are originated, designed, and carried along toward an end we are compelled to discern as the movements of God.

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## The Living Wage: Lessons from the History of Economic Thought

**Donald R. Stabile**

Northampton, Massachusetts: Edward Elgar, 2008 (163 pages)

“Economists care more about markets than they do about the poor.” So say many critics who believe that economists long ago abandoned humane values in favor of the invisible hand. They should be encouraged to read this book. Stabile traces the history of a *living wage* from Adam Smith to the current debate about whether employers, workers, or the government should pay for health care. After all, healthy workers presumably are more productive. Readers of this book will discover how much importance economists have always attached to poverty. They will also better understand the practical, political, economic, and moral dilemmas that must be addressed before the living-wage movement can gain widespread support.

This book is a careful exercise in clarifying the issues surrounding the question of whether communities (and whole societies) are morally responsible for ensuring that wage rates exceed a certain norm. The debate about a *living wage* is an extension of the age-old search for a *just wage*. Both are closely related to the matter of a legal *minimum wage*.

Stabile organizes his discussion of economic reasoning about a living wage along three dimensions: sustainability, capability, and externality. This is very helpful because it allows for a comprehensive treatment of the key reasons why economists have been concerned about low-wage rates from Adam Smith to the present. Throughout, Stabile compares the assumptions and thinking of *moral* economists with those of *market* economists.

This is a distinction that Stabile apparently felt he need not define. Based on the author's use of these terms, as well as *moral economics* and *market economics*, Adam Smith clearly represents the former. As Stabile shows, Smith not only believed that the moral foundations of a society were very important but also devoted his first bestseller to exploring the process by which individuals learn to distinguish between good and evil and are naturally drawn to care about the welfare of others.

By extension, moral economics entails analysis of economic behavior and conditions that raise moral concerns and evaluation of possible remedies. Market economics, by contrast, is associated with a strictly "scientific" analysis of economic forces by those who believe that markets are generally the *best* way to organize an economy. Of course, to say this is to make a moral argument. The latter has come to dominate among professional economists over the last several decades.

The distinction between moral and market economics, though not airtight, allows Stabile to provide an excellent description of the longstanding debate among economists about fair wage rates in relationship to poverty.

It is inherently a moral concern that workers be paid enough to survive. This was the perspective of Adam Smith. Though he is best known today for his description of competitive market forces, Smith repeatedly emphasized the importance of improving the living standard of the masses. This, not piling up gold, was the natural goal of any society. Furthermore, competitive markets could generally be relied upon to serve the goal best with relatively little government involvement.

Stabile provides several examples of Smith's writing on this theme. He also explains why Smith himself was concerned about the potentially deadening impact on poor workers of extensive division of labor. Thus, from the birth of their discipline, economists have recognized the possible conflict between growth-enhancing efficiency and the welfare of the poorest workers.

Although Smith is the first economist whose views on a living wage Stabile explores, the book also effectively connects readers with the writings of Plato and Aristotle regarding the purpose of work, income, and the pursuit of virtue. For them, too much income was a greater concern than too little.

From Adam Smith forward, moral economists have been concerned that the poorest workers earn enough to care for themselves and their families, providing them with basic necessities. This is the *sustainability* issue. The labor force cannot be sustained without wages that allow the next generation to be created and acquire the knowledge, skills, and social values necessary to participate in work and society. Smith advocated that government ensure that children of the working poor receive an education at the taxpayers' expense because they could not pay for it themselves. Furthermore, workers and their children needed education in order to be effective citizens through applying reason to their participation in public life. Without it they would not be able to see through the superficial appeal of violent revolution.

Smith hoped that economic growth itself, fostered by free and expanding markets, would be the long-run solution to low wages. Malthus, given his population theory, had the

greatest doubts about the possibility of raising living standards through economic growth. Stabile discusses their writings and the views of other nineteenth-century economists, some of whom believed that unions were needed to ensure that economic growth be shared with workers in the form of higher wage rates and better working conditions.

This takes us to Stabile's second theme, *capability*. It is difficult to separate out the three themes adequately in the space of a review. In sum, the issue of *capability* raises the question of whether higher wages make workers more capable and not merely more productive. The most holistic treatment of this subject is that of Amartya Sen, who expanded upon a similar conviction expressed by Alfred Marshall. In Stabile's words, "If development expands the freedom of individuals, those individuals will then have the capability to enhance the process of development, bringing more freedom and more development" (94).

If higher wages provide an income above the level necessary for family survival, they may also allow individuals to improve their capabilities by investing in education and the development of personal and social skills that benefit themselves, their communities, and the next generation. However, even if one could magically increase the incomes (or wage rates) of the poorest workers, how could one be sure that they would be well-used?

If the dynamic implications of *capability* are a rationale for a community to insist that living wages be paid, then who will decide what are the socially valuable uses for which the new income should be spent? Should it be government, employers, unions, or all three? Who will monitor it? This alone would necessarily be an expensive undertaking and, perhaps worse, very intrusive.

Stabile does a masterful job of evenhandedly ferreting out answers to these questions as supplied by market economists and moral economists on the basis of their respective ideals and judgment about what is good and possible.

The *capability* matter bleeds into that of *externality*. If higher wage rates increase the capability of workers in ways that affect the wider community, there may be an economic argument for regulations that would force low-paying companies to internalize the social costs they impose by paying low wages. Stabile explains how the externality argument may be applied to labor markets but uncovers only a few economists who have explicitly made the case.

In the last chapter, Stabile effectively summarizes his findings in the writings of well-known economists regarding all three dimensions: sustainability, capability, and externality. I doubt that it is possible to present a fairer or more complete discussion of economic thinking on the living wage. Stabile does not favor the arguments of either the moral or the market economists.

Having shown that economists have been concerned about the issue of low wages for generations, he makes it crystal clear why both moral and market economists remain skeptical about the living-wage movement as a solution to some kinds of poverty. Their skepticism ranges from the difficulty of determining a single living wage across time and place to the implications for freedom, efficiency, and fairness. We all make personal and social tradeoffs among these values. Nevertheless, Stabile says that supporters of a living

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wage have a daunting task to demonstrate that such a measure could effectively improve the lives of the poorest workers at socially and morally acceptable costs.

I highly recommend this book to anyone who cares about poverty and wants to know what economists have said about its connections with the labor market and to consider whether voluntary or government wage norms would be a wise, just, and effective way to reduce poverty. Economists should recommend this book to those who doubt that economists have values. Many professional economists could also use a good review of how their discipline has dealt with the ideas of just, fair, living, and minimal-wage rates. The book would make an excellent supplementary text for a history of economic thought class.

Thanks to Stabile for providing a full treatment of such an important intellectual, social, and moral issue.

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