the interests of the broader middle class because a minimum wage increase is likely to affect the wages of those workers earning more than the minimum wage. That is, others may benefit if the effect of raising the statutory minimum wage is to force wage increases for those earning in “wage contours” above the legal minimum.

Higher minimum wages may not only have a broader reach, but also may have positive so-called welfare effects. In evaluating policy choices, economists often ask whether a policy change is “Pareto efficient.” By this yardstick, a policy that provides assistance to some can be beneficial if it does not have a deleterious effect on the welfare of others. When economists speak about welfare effects they mean that an action designed to benefit one group cannot make either everybody else,

openings.[9]

The fast food industry, however is a monopsony to the extent that it is the principal employer of minimum wage workers, and therefore it is not representative of most industries. Because they are the only firms willing to employ minimum-wage workers, these workers have no other choice but to accept those low wages that they are offered. In a monopsony market, minimum wage increases may actually result in employment gains, largely because the market clearing wage is still below that of a perfectly competitive market. As an increase in the minimum wage is still likely to be less than the market-clearing wage of a perfectly competitive market, the minimum wage in a monopsony is likely to result in greater employment and efficiency because it will still be less than the equilibrium wage in a perfectly competitive market.[10] Kevin Lang and Shulamit Kahn even go so far as to suggest that higher minimum wages, contrary to the effects claimed by those who argue the youth disemployment effects, actually shift employment towards youth and students, especially in the fast food industry.[11]

Employment may also increase because employers engage in rescheduling. While wage increases will lower employment in the standard model, minimum wages in an alternative model can actually increase employment because the wage floor increases the relative costs of hours, in which case the employer has greater incentive to increase the mix of jobs relative to hours. The key point being that the wage rate is used to determine hours, as opposed to clearing the labor market. Therefore, the minimum wage can increase employment.[12] Employment can increase because the number of hours per worker may actually decline. As the cost of employing hours per workers increases, employers have greater incentive to reduce the work week and hire more workers. This is simply another form of substitution. Thomas Michl explored this rescheduling scenario by presenting a simple model of the demand for workers and weekly hours per worker in which wage increases in principle induce firms to hire more workers while simultaneously reducing the workweek. Using data from both Card and Krueger, and also from David Neumark and William Wascher, Michl has suggested that a case can be made that – to the extent that the New Jersey minimum wage increase had any impact on labor demand – it was to reduce the number of weekly hours per worker. Hours in New Jersey restaurants declined by around 6 percent or by about an hour and fifteen minutes per week.[13]

Even barring this type of substitution, Card and Krueger have not been alone with findings that challenge the existing orthodoxy. In two separate national studies of small business across industry type, Levin-Waldman found that most small businesses had not been affected by the last increase in the minimum wage (in July 1997). Moreover, most would not be affected were the minimum wage to be increased to $6.00 an hour and

among the options, hiring fewer total workers had the largest percentage of responses, with 47.2 percent and 42.7 percent indicating that they would hire fewer total workers were the minimum wage to be increased to $6.00 and $7.25 respectively. Employment consequences, in other words, would be felt by future workers; not by current ones.[14]

ſ r B nſ ts n n n

More recent research suggests a direct link between rising income inequality and the deterioration of labor market institutions such as unions and the minimum wage.[15] Increasingly, it has come to be recognized that the rise in income inequality is as much a function of changes in wage-setting institutions and social norms. Researchers have found that when wage setting is centralized by institutions, there tends to be greater equality. So, deterioration in institutions has led to increases in inequality. Such institutions have included unions, minimum wage councils in Britain, and the statutory minimum wage in the U.S.[16] As the U.S., for instance, experienced a sharp ideological shift towards a preference for competitive market outcomes and solutions, this

essential point of wage contour theory is that to the extent that certain wage rates serve as reference points for wages around them, there is nothing necessarily natural about wage rates. On the contrary, wage rates are determined more by institutions than the market place.[19]

William Spriggs and Bruce Klein note that many firms simply view the minimum wage as a reference point for what starting wages should be. Therefore, the minimum wage's greatest import is its function as a reference point for wages around it.[20] Similarly, David Gordon argued that a decline in the real value of the minimum wage would also affect those earning in between the point where the statutory minimum wage used to be and the point where it is at the end of the dip. An increase in the minimum wage, then, might lead to an upward pressure on wages because employers might be "pressured to pay more to their employees, even if they're not directly affected by the statutory increase, simply to ensure that they're able to continue hiring and employing the quality of workers they prefer."[21] The real importance of the minimum wage, then, lies in its impact on wages in the range from the statutory minimum to some point above.

More to the point, however, one could not even begin to measure more accurately the size of the minimum wage population unless the minimum wage was looked at in real terms rather than statutory terms. This, of course, would imply that as the statutory minimum wage increases, so too does the starting wage, thereby shifting upward the general wage structure. David Neumark, Mark Schweitzer and William Wascher. too acknowledge the so-called wage contour effects of the minimum wage, particularly for those earning immediately above the minimum wage. And yet, despite low-wage workers seeing their wages bumped up, they concluded that low-wage workers were worse off because they were hurt through a reduction in work hours.[22] Still, the fact remains: workers' wages fall into wage ranges or contours, and that a shift in one is going to result in a shift in others.

On the basis of decennial U.S. Census data for 1940-2000, Levin-Waldman argued that the effects of a minimum wage increase would generally be greater than commonly supposed because the population earning around the wage was actually substantially larger than usually supposed. Therefore, the effective minimum wage population would have to be defined as those earning around the minimum wage, i.e. wage contours. Wage institutions like unions and minimum wage laws did make a difference, particularly in explaining wage differentials between different regions of the country.[23] This also underscores that wage institutions like unions and the minimum wage also serve as key rates of change in particular wage contours, and that the focus on only those earning the statutory minimum is simply too narrow to make a determination regarding the utility of the minimum wage as a policy tool for both assisting low-wage workers and potentially narrowing the wage gap between the bottom and the top. Looking at state minimum wages from 1960 to 2000, Thomas Volscho estimated that each $0.81 increase in the minimum wage would result in a 35.5 percent ceteris paribus reduction in the Gini coefficient. Moreover, state wages on average had the effect of reducing the degree of income concentration in the top quintile, thereby lending support to the "ripple effect," or what we might otherwise refer to as wage contours.[24] In the remainder of the paper, I test the effects of state minimum wage increases on

wage contours.

Minimum Wage Earners

Data for this study is drawn from the Census Bureau's IPUMS Current Population Survey for 2004-2007. Each file measures the year preceding it. Therefore, I am looking at the calendar years 2003-2006. Because my primary focus is those workers earning around the minimum wage, I only look at those actively engaged in the labor force. In each year I then divide the low-wage population into three contours, which range from the statutory minimum wage to 25 percent above the statutory minimum wage in each state. Successive contours pick up where the preceding contour left off and ranges to 25 percent above. The sum total is that those earning in the first three contours above the statutory minimum wage are earning up to roughly 91 percent above the statutory minimum wage in their respective states. When attempting to measure how many people are earning the statutory minimum wage, the data produces no me

Table 1 also suggests that effective minimum wage earners are not "primary" earners given that they are living in households where income may be at least three times as much and more. And yet, it would be a far cry to claim, as much of the conventional wisdom does, that their income is not essential to their household's maintenance. A household income of $42,000 to $46,000 in New York State really does not go terribly far, especially in New York City. Moreover, a look at selected demographics for just the first contour (the effective minimum wage population) calls into question the conventional refrain of critics that most minimum wage earners are simply teenagers.

The largest percentage of effective minimum wage earners fall into the 25-44 age range, particularly in New York. Intuitively one might expect these workers to by and large have less than a high school education, but the data actually shows that the greatest number do have a high school degree. Interestingly, a large percentage of effective minimum wage earners are immigrants, and this is especially so in New York and New Jersey. Although the percentage of foreigners earning effective minimum wage is higher in Connecticut than in Pennsylvania and the U.S. overall, it is not nearly as high as in New York or New Jersey. The majority of these workers are women, which may speak to their status as secondary earners in their households. That most effective minimum wage earners are adult women runs counter to opponents' claims that the minimum-wage

2005 the unemployment rate among this contour actually rose 6 percent (from 5.0 to 5.3 percent). But following its subsequent increase from $6.00 to $6.75 an hour in 2006, the unemployment rate actually dropped by a steep 49 percent (from 5.3 percent to 2.7 percent). And in New Jersey, where the state's minimum wage increased to $6.15 an hour in 2006, the unemployment rate among this contour dropped 12.7 percent (from 5.5 percent to 4.8 percent). Unlike Connecticut's small percentage phased increases over several years, these were legislated increases –radical responses to the moment – that meant that earners in this contour were receiving substantial increases.

If the so-called radical increases had no effect, the conventional wisdom would argue that it was because the new minimum wage rates were still considerably below market-clearing wages. But raising the minimum wage beyond a certain point – the tipping point – could have adverse consequences.[25] Intuitively, especially given the language of tipping points, one would expect that following large percentage increases in the minimum wage there could be an increase in unemployment because of some disemployment effect. Meanwhile, in 2005–2006 in the U.S. overall and Pennsylvania in particular, where there were no minimum wage increases, unemployment rates among this contour slightly rose.

Given that in some cases unemployment rose and in others it declined, it cannot be stated with any

assumption that they might be more vulnerable to losing their jobs.[26]

My findings here reveal a consistent, statistically significant and very strongly negative association between higher minimum wages and the likelihood of unemployment. That is, those earning an hourly wage above the median in their contour were less likely to be unemployed. And in some cases the negative effect was even stronger as one moved from the first contour to the second and even into the third. Only in New Jersey in 2006 did the negative effect weaken slightly, but started out very strongly negative in the first. The variables that had the strongest effects for being unemployed were: having less than a high school degree and being African American. Also being in the 18–24 age cohort in Connecticut in 2004 (at least through the first two contours) and in both New York and New Jersey throughout the three contours in 2006 had strong effects for being unemployed. Of course, we don't know whether they are more likely to be unemployed because they were laid off or because they were voluntary job leavers who simply did not care to remain in their particular jobs for whatever reasons. However, in only two instances, in Connecticut's first contour in 2003 and in New York's second contour in 2005, did being in the 25-34 age cohort have a positive effect for being unemployed that was statistically significant. Industry impacts varied, but generally were either not statistically significant or, when significant, were strongly negative. Although on the basis of Table 2 we are likely to see "effective" minimum wage earners in certain industries, that is not likely to determine whether one will wind up being unemployed. Rather, certain variables, like low educational attainment, and being in the 18–24 age cohort are more closely associated with unemployment. However, wage rates do not appear to be. Therefore, the statistical analysis suggests that a wage higher than the median is not likely to be associated with a disemployment effect. Those who lacked education, were black and were in the 18–24 age cohort were more likely to be unemployed. Of course, this says nothing about why they are more likely to be unemployed.

public interest,

Source: Economic Policy Institute, “General Information on the Minimum Wage,” Table 4 (August 2008): www.epi.org

Co p r t v n In v u n Hous o Inco Contour

	U.S			New York			New Jersey			Connecticut			Pennsylvania		
	1st	2nd	3rd	1s	2nd	3rd	1st	2nd	3rd	1st	2nd	3rd	1st	2nd	3rd
2003															
Median Hourly	$5.77	$7.21	$9.12	$5.77	$7.21	$9.10	$5.77	$7.21	$9.13	$7.50	$9.61	$12.23	$5.77	$7.21	$9.13
Median Household	$39000	$40535	$44028	$42000	$46578	$44272	$43116	$53001	$53720	$50034	$60000	$63842	$44265	$43000	$50620
2004															
Median Hourly	$5.77	$7.21	$9.13	$5.77	$7.21	$9.13	$5.77	$7.21	$9.13	$7.69	$9.62	$12.50	$5.77	$7.21	$9.13
Median Household	$40000	$42615	$46639	$42000	$40960	$46084	$48939	$46000	$53000	$48939	$51078	$58210	$49010	$43330	$49000
2005															
Median Hourly	$5.77	$7.21	$9.13	$7.05	$8.57	$10.33	$5.77	$7.21	$9.19	$7.69	$9.61	$12.01	$5.77	$7.21	$9.37
Median Household	$41292	$43000	$46209	$41376	$38883	$53534	$55630	$49460	$62449	$49040	$57950	$64672	$49873	$55000	$48248
2006															
Median Hourly	$5.77	$7.21	$9.13	$7.21	$9.61	$12.01	$7.21	$8.65	$10.58	$8.41	$10.58	$13.46	$5.77	$7.21	$9.13
Median Household	$44333	$45000	$46649	$46100	$43000	$52192	$49215	$55600	$67242	$59512	$56085	$68050	$47642	$55025	$50000

r o on t r n r 6 n r E o mtmfu 6 n o t n 66

Y J C A

o I p ct Est t s of Y n u on oo of n p o nt

2003 Connecticut

1st Contour	*2nd Contour*	*3rd Contour*
-1.663	-1.485	-1.645
(.000)	(.000)	(.000)

2004 Connecticut

1st Contour	*2nd Contour*	*3rd Contour*
-1.116	-1.235	- 1.645
(.000)	(.000)	(.000)

2005 New York

1st Contour	*2nd Contour*	*3rd Contour*
1.531	-1.552	-1.637
(.000)	(.000)	(.000)

2006 Connecticut

1st Contour	*2nd Contour*	*3rd Contour*
-1.458	-1.499	-1.749
(.000)	(.000)	(.000)

New Jersey

1st Contour	*2nd Contour*	*3rd Contour*
-1.968	-1.887	-1.704
(.000)	(.000)	(.000)

New York

1st Contour	*2nd Contour*	*3rd Contour*
-1.374	-1.440	-1.375
(.000)	(.000)	(.000)

[illegible] to [illegible] op Fit [illegible] n of Inco D str ut on to Botto Contour

	[illegible]			[illegible] 6			
	Botto	**op**	**t o**	**Botto**	**op**	**t o**	**C n**
U.S	$12,000	$68,811	5.7	$12,000	$75,000	6.3	10.5
New York	12,000	90,000	7.5	15,000	100,000	6.7	-10.7
New Jersey	12,000	75,000	6.3	15,000	80,000	5.3	-15.9
Connecticut	15,600	85,000	5.4	17,500	100,000	5.7	5.6
Pennsylvania	12,000	75,000	6.3	12,000	74,000	6.2	-1.6

[illegible] to [illegible] op Fit [illegible] n of Inco D str ut on to Botto Contour

	[illegible]			[illegible] 6			
	Botto	**op**	**t o**	**Botto**	**op**	**t o**	**C n**
U.S	$12,074	$88,262	7.3	$12,053	$100,225	8.3	13.7
New York	12,100	116,868	9.7	15,670	137,605	8.8	- 9.3
New Jersey	12,103	98,956	8.2	14,449	113,078	7.8	- 4.9
Connecticut	15,771	109,950	7.0	17,412	137,892	7.9	12.9
Pennsylvania	12,048	95,463	7.9	12,070	94,450	7.8	- 1.3