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"The Asymmetric Effect of Wage Floors: A Natural Experiment with a Rising and Falling Minimum Wage"

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Abstract: Exploiting a unique natural experiment, we show the asymmetric effect of a large increase and an equivalent subsequent decrease to a binding minimum wage. Earnings in a leading low-wage industry increase as the minimum wage rises, but do not fall when it is lowered. This boost to workers' earnings is apparently permanent five years after the policy is revoked, providing novel evidence of wage hysteresis from temporary labor policy. In the first year post repeal, this is consistent with downward nominal wage rigidity. But, the elevated earnings persist long term, even in high inflation times, contrary to the prevailing view that the pay gap relative to unaffected workers should be eroded by inflation. Our analysis suggests this persistence stems from changed wage-setting norms in the labor market. These results highlight the role of public policy in shaping wage expectations, and demonstrate the potential of even transitory interventions in achieving permanent gains for workers (play it while you got it).