

Downward Nominal Wage Rigidity in the United States

The distribution of changes in nominal hourly wages in the US, which is highly asymmetric with a large spike at zero-changes and fewer wage cuts, also exhibit a notable cyclical pattern. The share of workers with no wage changes, which corresponds to the spike at zero, has a greater countercyclical fluctuation compared to the share of workers with wage cuts. During recessions, employment as well as the share of workers with wage increases decline, both moving pro-cyclically. On the other hand, among the workers without wage increases, 67% of them experience no wage change, showing a larger countercyclical movement compared to the share with wage cuts. This finding, previously unnoted in the literature on nominal wage rigidity, suggests downward nominal wage rigidity and its importance during recessions, with implications for employment. Under this light, I provide a different interpretation of the findings by Beraja, Hurst, and Ospina (2018), who argue wages are rather flexible using the state-level wage variations. I show that the state with the greatest decline in employment during the Great Recession experienced the largest increase in the share of workers with no wage changes. To fix ideas, I compare heterogeneous agent models with five different wage-setting schemes—perfectly flexible, Calvo, long-term contract, menu cost, and downward nominal wage rigidity— and show only the model with downward nominal wage rigidity is consistent with the empirical findings regarding the shape and cyclicity of the wage change distribution.