INVESTOR PERCEPTION OF SALARY HISTORY BANS ADOPTION IN THE UNITED STATES

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ABSTRACT

To crack down on pay disparities, the U.S. government is increasingly adopting mandatory salary history bans (SHBs) that restrict employers from soliciting salary history information from job applicants. I examine how investors perceive the passage of SHBs using an event study approach. Across all events associated with the passage of SHBs, I find an average negative cumulative abnormal return of -0.72%, suggesting that shareholders interpret the introduction of SHBs as costly for companies. This aligns with the notion that SHBs could elevate labor costs, introduce information asymmetry and adverse selection in the labor markets, thus diminishing efficient labor investment. Cross-sectional variation tests suggest that the negative market reaction is more pronounced among firms with higher labor-related costs, higher human capital intensity, less efficient labor investment, and those operating in more competitive labor and product markets prior to the adoption of SHBs. Furthermore, I examine the *ex post* effect of SHBs on firm performance using a difference-in-differences design. Consistent with the negative perception of investors, I find that treated firms exhibit a significantly greater decline in both operating and financial performance compared to control firms following the implementation of SHBs. Overall, the results shed light on the unintended capital consequences of SHBs.

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Table of Contents

1. Introduction

Pay inequality is a pervasive concern in a majority of countries globally. In the United States, these disparities have persisted over the past decade, with limited progress in narrowing the pay gap. For example, as reported by the U.S. Department of Labor (2023), women working full-time and year-round earned approximately 84 cents for every dollar earned by men in comparable positions in 2021.[1] Against this backdrop, since 2016, a dozen U.S. states have adopted Salary History Bans (SHBs), which involve restrictions on employers from seeking job candidates' salary history during the hiring process. The objective of SHBs is to promote equality for workers and protect the interests of disadvantaged workers including but not limited to females and minorities by strengthening their bargaining power during negotiations with firms. Advocates of these bans argue that the common practice of requesting salary history during the hiring process can reinforce the perpetuation of pay path dependence for historically disadvantaged groups, who earned lower wages in the past because this practice grants employers a bargaining advantage in compensation negotiations, as they can utilize the salary history data to infer applicants' reservation wage and formulate salary offers based on their prior earnings or slightly above them. By prohibiting employers from requesting information on applicants' current or past salaries, SHBs can benefit groups that have historically experienced discrimination or disadvantage.

Previous studies suggest that SHBs have largely achieved their intended objectives, such as reducing pay inequality and increasing salaries for underpaid workers (e.g., Hansen and McNichols 2020; Barach and Horton 2021; Sinha 2022; Mask 2023; Zhai 2023; Bessen, Denk, and Meng 2024). Nevertheless, it remains unclear whether this policy can effectively protect the interests of employees while also benefiting shareholders, aligning with the concept of

[1] The report "Equal Pay in the United States – Salary History Bans" issued by U.S. Department of Labor can be found at: https://www.dol.gov/sites/dolgov/files/WB/equalpay/WB_Brief_Equal_Pay_Salary_History_Bans_03072023.pdf.

"doing well by doing good", or whether it might create conflicts of interests among different stakeholders. To assess whether the adoption of SHBs is perceived as beneficial or costly for firms by equity investors, this paper examines the equity market's reaction to the events leading to the passage of SHBs. Understanding how equity markets respond to SHBs is crucial due to the increasing importance of human capital as a determinant of a firm's competitive advantage (e.g., Jung, Lee, and Weber 2014; Cao and Rees 2020; Ghaly, Dang, and Stathopoulos 2015, 2020), and SHBs potentially have significant effects on firms' labor management strategies. To the extent that shareholders recognize the value of labor investments, it is crucial to comprehend how equity market investors respond to the adoption of SHBs.

The market reaction to SHBs is unclear *ex ante*. On the one hand, proponents argue that SHBs are not only beneficial to employees but also advantageous for employers. Women's Bureau mentions that the policies could advance employers and be beneficial to a strong economy (U.S. Department of Labor 2023). By empowering workers in wage negotiations, SHBs allow employees to secure better salaries aligned with their actual productivity. Improved negotiations could lead to higher compensation, attracting more talented workers. Then the increased productivity of these skilled employees may offset the higher labor costs, potentially improving firm profitability. Thus, SHBs may help address structural biases and align pay with merit, fostering a more equitable and efficient labor market.

In addition, recent research shows that the implementation of SHBs can contribute to the reduction of wage gaps, particularly for disadvantaged groups such as women and minorities, (Sinha 2019; Sockin and Sockin 2019; Hansen et al. 2020; Sinha 2022; Mask 2023; Bessen et al. 2024). A large number of studies have provided both theoretical and empirical evidence highlighting the adverse effects of unfair treatment and perceptions of inequity on workers' productivity (e.g., Akerlof and Yellen 1990; Rees 1993; Card, Mas, Moretti, and Saez 2012; Bracha, Gneezy, and Loewenstein 2015; Ockenfels, Sliwka, and Werner 2015; Breza, Kaur,

and Shamdasani 2018; Cullen and Perez-Truglia 2022). By addressing pay inequality, organizations have the potential to enhance employees' perceptions of fairness and overall well-being, leading to improved job satisfaction and productivity (Cohn, Fehr, and Goette 2015). Hence, the passage of SHBs may elicit positive reactions from investors due to the anticipated reduction in pay gaps, which can foster a heightened sense of fairness and welfare among employees, leading to higher productivity and thus shareholder value.

On the other hand, however, opponents, including policymakers, have raised serious concerns about the effectiveness of SHBs in addressing pay inequality and the unclear consequences in the labor markets. For instance, Governor Christopher T. Sununu of New Hampshire vetoed SHB (House Bill 211) on July 10, 2019, asserting that fostering a free-market environment is vital for economic growth and overall success for both workers and employers.[2] In addition, critics contend that the implementation of these stakeholder-oriented policies aimed at promoting employee' interests may inevitably increase labor-related burdens for firms. One notable consequence is the potential rise in labor costs, as better wage negotiations for workers could lead to higher salaries, even for groups that are not necessarily underpaid (e.g., Barach et al. 2021; Sinha 2022; Mask 2023; Bessen at al. 2024). Given that labor costs typically constitute a substantial proportion, approximately two-thirds, of the overall expenditures associated with the production of goods and services (Bernanke 2004; Cao et al. 2020), even a 1% increase in workers' earnings can translate to a significant amount of additional labor costs for firms. Furthermore, the complications introduced into the hiring process due to the prohibition of open discussions about salary history, can impede employers' ability to effectively screen applicants with matched salary expectations. This, in turn, can

[2] The document could be found at https://www.governor.nh.gov/sites/g/files/ehbemt336/files/documents/hb211-veto-message.pdf.

impose additional burdens on employers by increasing the time and costs associated with interviewing and selecting new hires.

Opponents of SHBs have also raised concerns regarding the potential unintended consequences of such policies, specifically the issues of information asymmetry and adverse selection in labor markets (e.g., Meli and Spindler 2019; Sran, Vetter, and Walsh 2020; Barach et al. 2021; Davis, Ouimet, and Wang 2022). A worker's salary history provides valuable information to employers about how previous employers evaluated the individual's quality and productivity. By restricting access to this employee-specific salary data, SHBs can exacerbate the information asymmetry between employers and job applicants. This, in turn, can result in heightened labor market frictions and a greater reliance on more general characteristics during the hiring process. Crucially, this information asymmetry may have disproportionate effects, potentially benefiting low-performing, low-experience, or low-wage-bid employees at the expense of high-performing workers. The increased information gap can raise the switching costs for high-performing employees, as they would have to forgo their prior records of high productivity and above-average salaries. Conversely, the policy may advantage low-performing workers by enabling them to shed their histories of low productivity and secure higher salaries from new employers. This dynamic can lead to an elevated likelihood of hiring unqualified employees and issues of overpayment for firms, ultimately resulting in lower labor investment efficiency and poorer firm performance. Thus, while these stakeholder-oriented policies aimed at enhancing employee equality may be beneficial from a societal perspective, SHBs can also present significant operating and financial challenges for firms, as the increased labor-related costs, complexities in the hiring process, and higher labor market frictions can strain their resources and profitability, leading to negative perception of equity investors on the net effects of SHBs. Given the competing arguments, the market reaction to SHBs remains an open empirical question.

To examine this question, I investigate the market reaction surrounding four key legislative event dates that substantially raise the probability of SHBs being passed. This analysis focuses on the states that require private sector employers to implement SHBs during the hiring process. To mitigate confounding effects, I exclude six states that have SHBs covering private sectors but also require pay range disclosures in the same laws. The final sample consists of 2,572 firm-event observations. Overall, I find that based on the three-day cumulative abnormal returns, there is an average negative market reaction of -0.72 percent across all events, lending evidence in support of investors perceiving that the costs of adopting SHBs outweigh the benefits. The results are robust with alternative models and alternative windows used to calculate cumulative abnormal returns.

Next, I conduct several cross-sectional tests to evaluate the cross-sectional variations in market responses to SHBs. First, the increased labor-related costs due to better wage negotiations for workers, a more complicated hiring process, and higher compliance costs may impose substantial financial burdens on firms. For firms already facing higher labor expenses, they are likely to face increased scrutiny from investors due to concerns about their operating efficiency and profitability resulting from these additional labor costs. Using selling, general and administrative expenses as a proxy for labor expenses, I find that market reactions are more negative among firms with higher costs prior to the adoption of SHBs. Additionally, human-capital-intensive firms typically employ workers with advanced expertise, education, and labor skills, and heavily invest in their workforce (e.g., Hamermesh and Pfann 1996; Ochoa 2013; Cao et al. 2020). As such, the increased labor-related costs resulting from the enhanced wage bargaining power of employees due to SHBs may have a more pronounced impact on human-capital-intensive firms. Following prior literature (e.g., Ertugrul 2013; Ghaly et al. 2015; Cao et al. 2020), I use the ratio of research and development (R&D) expenses to total sales to proxy for human capital intensity and define firms operating in human-capital-intensive industries,

including subcategories within the telecommunications, high-tech, and healthcare sectors, as high human-intensive firms. In line with my expectation, the results suggest that the negative impacts of SHBs are stronger among firms with higher human capital intensity.

Second, I examine the impact on firms that already demonstrate poor labor investment efficiency before the introduction of these bans. I predict that for such firms, the implementation of SHBs may worsen their labor management challenges and exacerbate operating inefficiencies. This outcome is primarily attributed to the intensified information asymmetry and adverse selection that arise as a result of the bans. To measure labor investment inefficiency, I employ abnormal net hiring as a proxy, following the methodology proposed by Jung et al. (2014). Consistent with my prediction, the results show that firms with pre-existing labor investment inefficiencies experience more negative market reactions.

Third, I examine whether the negative market reactions are more pronounced when employees possess more valuable alternative employment opportunities. In labor markets characterized by competition or high labor mobility, employees are positioned more advantageously relative to employers (e.g., Bagga 2023; Caldwell and Danieli 2024; Schubert, Stansbury, and Taska 2024). By removing employers' ability to rely on salary history as a basis for determining compensation, SHBs contribute to a rebalancing of power dynamics in favor of employees. This shift enables employees to negotiate more favorable wage terms and further disadvantages firms operating in competitive markets. I find that the market reactions are more pronounced when employees have relatively stronger bargaining power when firms facing higher competition in labor market and encountering higher labor risk due to the higher mobility of their skilled labor force.

Next, I investigate how product market competition affects the market reactions to SHBs. In less competitive markets, firms may possess stronger bargaining power and product pricing right, enabling them to raise product prices and shift the burden onto customers, which could

potentially mitigate the adverse effects of SHBs. By using product fluidity and similarity score to proxy for product market competition, I find evidence consistent with the conjecture that the market reactions are stronger among firms in competitive product market.

Lastly, I find that the market reactions are weakened when the states allow employers to discuss and negotiate compensation expectations during the hiring process. A potential explanation for this is that even though SHBs prevent employers from directly accessing applicants' previous salary information, employers may still be able to indirectly infer the applicants' reservation salaries and salary expectations through the negotiation process. This reduces the effectiveness of SHBs in rebalancing the power dynamics between employers and employees, as employers can continue to leverage salary information in setting compensation levels. As a result, the market reactions to the adoption of SHBs are less pronounced in states that permit employer-employee compensation expectation discussions and negotiations during hiring.

In addition, I conduct additional tests to investigate the real consequences of SHBs on firms' performance after the regulations take into effect. I employ a stacked difference-in-differences analysis over a [-5, +5] time window around the implementation of SHBs to investigate the differences in firm operating and financial performance between treated and control firms. The findings lend support to the hypothesis that SHBs could largely increase labor related burdens and adversely impact labor investment efficiency for firms, leading to lower firm performance and a decline in firm value.

My study makes several contributions to the literature. First, it extends the literature investigating the real effects of SHBs (e.g., Meli et al. 2019; Hansen et al. 2020; Sran et al. 2020; Barach et al. 2021; Davis et al. 2022; Sinha 2022; Mask 2023; Zhai 2023; Bessen et al. 2024). The majority of existing literature has focused on evaluating the efficacy and potential drawbacks of SHBs as a tool to tackle pay disparities from societal perspective. For instance,

Sinha (2022) finds a two percentage point decrease in the gender pay gap due to SHBs implementation, Mask (2023) documents an increase in salaries for scarred workers who started their careers during recessions, while Zhai (2023) shows a 1.04% average reduction in employment at firms located in areas with SHBs. Instead, my paper provides a timely analysis of the capital market consequences of SHBs by investigating equity investors' perception of SHBs adoption and real consequences on corporate outcomes. Given increasing importance of human capital as a crucial determinant of a firm's competitive advantage, and the vital role of shareholders in allocating capital, sending valuation signals, and potentially shaping corporate behaviors, it is crucial to understand whether shareholders view SHBs adoption as beneficial or costly for firms.

Second, my study contributes to the literature on corporate social responsibility. This question is particularly timely given the substantial influx of capital into socially responsible investments in recent years (Hartzmark and Sussman 2019). Despite the increasing prominence and adoption of CSR practices, the underlying motivations for CSR and its ultimate effect on shareholder value remain inconclusive (e.g., Friedman 1970; Brammer and Millington 2008; Renneboog, Horst, and Zhang 2008; Barnett and Salomon 2012; Krüger 2015; Masulis and Reza 2015; Manchiraju and Rajgopal 2017; Byun and Oh 2018; Cheng, Hong, and Shue 2023). By examining how equity investors perceive the adoption of SHBs, a policy aimed at promoting more equitable compensation practices, my study provides insights into the interplay between CSR-related initiatives and shareholder value. This investigation is valuable given the ongoing debate around whether CSR activities enhance or detract from firm performance and shareholder wealth.

Third, this study fills the gap in the literature regarding the informativeness and economic impact of salary disclosures. By examining how the equity market reacts to the prohibition of salary history disclosures through the implementation of SHBs, the study provides insights into

investors' perceptions of the value of previously disclosed salary history information. The ban on salary history disclosures presents a unique opportunity that allows the researchers to observe how investors respond to the removal of this type of information. This investigation contributes to the ongoing debate around the merits of pay transparency, with some arguing that it is beneficial while others have voiced concerns about its potential drawbacks (e.g., Cullen 2024). Consistent with Meli et al. (2019), as a salary ban may add a significant friction in labor markets, better policy to mitigate income inequity may include greater transparency regarding salary levels.

Last but not the least, regulators and policy makers may also be interested in this study, as multiple U.S. states currently considering enacting SHBs. This research holds significance as it is the first of its kind to document a negative unintended consequence resulting from SHBs, shedding light on the potential implications for firms. The findings from this study contribute to both regulatory discussions and academic debates surrounding the value and impact of salary history disclosures. In particular, by highlighting the potential negative consequences, policymakers can weigh the benefits of promoting pay equity against the potential challenges faced by firms due to decreased information transparency. This research adds valuable empirical evidence to the ongoing discourse surrounding salary history disclosures, enabling a more comprehensive understanding of the issues at hand.

2. Background, literature review, and hypothesis development

2.1 Institutional background

According to survey evidence, a significant percentage of job applicants in the United States, ranging from 25% to 50%, are commonly asked to disclose their previous salary during job interviews (Hall and Krueger 2012; Barach et al. 2021; Sinha 2022). For instance, Hall et al. (2012) find that 47% of respondents have been queried about their past wages at some point in their careers. Critics argue that the availability of this salary history information to employers

raises concerns about the potential impact of history dependence on wage growth. Salary history serves as a source of information about an employee's reservation wage, granting employers a bargaining advantage. Consequently, employers may structure their compensation offers based on the applicants' salary histories, or slightly exceed them, while job applicants remain unaware of the employers' expectations regarding remuneration. This information asymmetry can contribute to the persistence of pay inequities over time.

To address the issue of pay disparity, a widely adopted institutional-level intervention is the implementation of SHBs, which "prohibit employers from asking about and/or relying on a job applicant's prior salary in hiring and compensation decisions" (U.S. Department of Labor 2023). A number of important jurisdictions have recently enacted certain forms of SHBs. As of January 2023, a total of 21 states have established state-wide policies that restrict salary history inquiries. Most of these bans apply to all employers, including both public and private sectors, while in Michigan, North Carolina, Pennsylvania, and Virginia, only public employers are subject to these policies.[3, 4, 5, 6] Figure 1 shows the states in the United States that have adopted state-wide SHBs. Although there is variability in the extent and stringency of these bans, their fundamental aim is to limit employers from requesting information about applicants' salary history during the hiring process. For example, Massachusetts was the first to prohibit

[3] Michigan passed Executive Directive 2019-10 in 2019 which took effect from Jan 8, 2019 and applies to state agencies, however, Michigan passed SB 0353 which prohibits local governments to regulate the information an employer must request, require, or exclude on an application for employment or during the interview process (i.e., salary history bans prohibited). Related information is available at: https://www.michigan.gov/whitmer/news/state-orders-and-directives/2019/01/07/executive-directive-2019-10; https://www.legislature.mi.gov/Bills/Bill?ObjectName=2017-SB-0353.
Wisconsin also has passed regulation stating that local government is not allowed to stop private sector employers from soliciting the pay history of job applicants. Related information is available at: https://docs.legis.wisconsin.gov/2017/related/proposals/ab748.

[4] North Carolina passed Executive Order No.93 which took effect from April 2, 2019 and applies to state agencies. Related information is available at: https://governor.nc.gov/documents/files/executive-order-no-93-prohibiting-use-salary-history-state-hiring-process/open.

[5] Pennsylvania passed Executive Order 2018-03 on June 6, 2018 which took effect 90 days after passage for state agencies. Related information is available at: https://www.oa.pa.gov/Policies/eo/Documents/2018-03.pdf.

[6] Virginia enacted SHB for state agencies from July 1, 2019. Related information is available at: https://www.governor.virginia.gov/newsroom/all-releases/2019/june/headline-841165-en.html.

firms from accessing applicants' salary history information. The state passed S2119 in 2016 which requires that "It shall be an unlawful for an employer to: seek the wage or salary history of a prospective employee or a current or former employer" (The General Court of the Commonwealth of Massachusetts 2016).[7] Similarly, Delaware's SHB (House Substitute 1 for House Bill 1) mandates that "An employer is not allowed to (1) screen applicants based on their compensation histories, including by requiring that an applicant's prior compensation satisfy minimum or maximum criteria; (2) seek the compensation history of an applicant from the applicant or a current or former employer" (Delaware General Assembly 2017).[8] New York additionally requires that employers shall not (1) rely on prior salaries in determining whether to offer employment or in determining compensation paid to applicants; (2) refuse to interview, hire, promote, or retaliate against an applicant based on prior salary or because the employee did not provide salary history in the S6549 (The New York State Senate 2019).[9] In this paper, in order to test the market reactions to the passage of SHBs which could provide evidence on how the investors perceive the net effects of SHB adoption on firms, I only investigate the market reactions of SHBs covering private sector employers. Table 1 provides the timeline for legislations that covering all employers.

Nevertheless, it is important to acknowledge a limitation of these bans, which is that applicants have the option to voluntarily disclose their pay history during the hiring process without being prompted to do so. This aspect has led opponents to argue that SHBs may not effectively address pay inequity. However, even if an applicant voluntarily provides their salary history, certain SHBs explicitly prohibit employers from using this information as the sole basis for determining a worker's compensation.

[7] The law can be found at https://malegislature.gov/Bills/189/S2119.
[8] The law can be found at https://legis.delaware.gov/BillDetail?legislationId=25664.
[9] The law can be found at https://www.nysenate.gov/legislation/bills/2019/S6549.

In addition, alongside with SHBs, some states also have pay range disclosure requirements at the same time. For example, California's SHB (AB 168) also requires firms to provide pay range information to an applicant upon reasonable request.[10] In order to rule out the confounding effects caused by pay range requirement, states that mandate SHBs and pay range disclosures in the same laws are excluded from the sample of this paper.

2.2 Literature review and hypothesis development

Prior research has extensively investigated the role of negotiation behaviors in shaping labor market outcomes, particularly in the context of salary negotiations. Notably, differences in both the willingness and ability to negotiate have been identified, and these differences have been found to contribute to the pay gap (Mazei et al. 2015; Kugler, Reif, Kaschner, and Brodbeck 2018; Bowles, Thomason, and Macias-Alonso 2022). In response to these findings, interventions aimed at reducing negotiation disparities and their impact on disadvantaged groups have gained prominence at the institutional level. One such intervention that has gained substantial popularity is the prohibition of salary history requests, motivated by the desire to disrupt the path dependency of wages.

Critics argue that relying on an employee's prior salary to determine their current pay can perpetuate pay disparities, particularly for individuals who have experienced discrimination. By accessing applicants' salary histories during negotiations, employers can gain a bargaining advantage by leveraging knowledge of the applicants' reservation wages and exploiting past inequities. When employers have not previously disclosed a salary range, they can make an offer based on the applicants' salary history or slightly exceed it. Consequently, job applicants facing discrimination or other disadvantages may be more inclined to accept lower wages compared to equally qualified counterparts, perpetuating existing inequities. Proponents of

[10] The law can be found at https://leginfo.legislature.ca.gov/faces/billStatusClient.xhtml?bill_id=201720180AB168.

SHBs contend that by prohibiting employers from inquiring about applicants' current or previous salaries, these laws can help mitigate the influence of wage history, address pay gaps, and particularly benefit groups that have historically experienced discrimination or disadvantage.

An emerging literature has investigated on the effectiveness of SHBs on narrowing pay inequities. And some papers document that following the implementation of these bans in some states in the United States, there is a significant decrease in the pay gaps, particularly driven by the increase in earnings for those disadvantaged groups such as women and minorities (e.g., Sinha 2019; Sockin et al. 2019; Hansen et al. 2020; Sinha 2022; Mask 2023; Bassen et al. 2024). For instance, Sinha (2022) reveals a statistically significant two percentage point decrease in the gender pay gap as a result of implementing SHBs. This reduction was primarily driven by higher earnings for women. Similarly, Bassen et al. (2024) observe a substantial increase of 6.2% in wages for women and a significant 5.8% increase for non-white individuals following the introduction of SHBs. These findings provide robust evidence of the positive effects of SHBs in narrowing pay disparities for these disadvantaged groups. While Hansen et al. (2020) do not find significant overall effects of SHBs on pay disparities across the entire population, they identify substantial increases in the gender earnings ratio within certain subgroups, such as households with all children over 5 years old and workers over the age of 35. Furthermore, Mask (2023) focuses on the effect of SHBs on workers who began their careers during moderate-to-severe recessions. The findings indicate that SHBs lead to higher salaries for these scarred workers, highlighting the potential of SHBs to mitigate the long-term negative impacts of economic downturns on individuals' wage trajectories. Overall, these findings lend support to the argument that negotiation behaviors and the reliance on salary histories contribute significantly to the persistence of wage gaps. SHBs have emerged as a policy intervention that

can disrupt these mechanisms and potentially contribute to the reduction of pay disparities, particularly benefiting disadvantaged groups.

Then the implementation of SHBs may improve firm performance. If narrowed pay gaps increase the perception of fairness and welfare for employees, job satisfaction among those underpaid employees will increase, which will motivate them to exert more effort and boost their productivity.

Previous research provides theoretical and empirical evidence highlighting the potential negative impact of unfair treatment and perceptions of inequity on workers' productivity (e.g., Akerlof et al. 1990; Rees 1993; Card et al. 2012; Bracha et al. 2015; Ockenfels et al. 2015; Breza et al. 2018; Cullen et al. 2022). For instance, Ockenfels et al. (2015) suggest that individuals who perceive themselves as falling short relative to the reference standard for bonus payments may experience decreased satisfaction, which could subsequently have a detrimental effect on their performance. Addressing pay inequality may then lead to improved perceptions of fairness and well-being among those employees, ultimately resulting in higher job satisfaction. Cohn et al. (2015) demonstrate that when employees perceive their compensation as unfair or inadequate compared to their perceived worth or the compensation of their peers, providing them with a higher hourly wage can elicit a positive response in terms of their performance. Consequently, the passage of SHBs may be perceived as advantageous for firms by investors, as such bans have the potential to enhance fairness among employees, increase job satisfaction, and boost overall productivity.

In addition, restricting recruiters' access to salary history information provides job seekers more bargaining power and helps them to achieve salaries that better match their true marginal productivity. SHBs may disrupt the pay path dependence that can occur when lower past salaries, often due to systematic biases, influence future compensation offers. By giving job seekers more leverage in wage negotiations, SHBs can help employees secure better salaries

that are more aligned with their actual contributions. Improved wage negotiations could lead to higher compensations, which in turn may attract more talented individuals to these roles. The increased productivity and skill level of these high-qualified employees could potentially offset the higher employee costs, ultimately resulting in improved profitability for the firms. By addressing structural biases in the hiring and compensation process and aligning salaries with true merit, SHBs may foster a more equitable and efficient labor market.

However, SHBs are not undisputed, even among policymakers due to unclear consequences in labor market and firm operation. Other studies provide evidence of potential harm from these policies. One notable consequence is the potential increase in labor costs, as well as the complications introduced into the hiring process and the heightened risk of litigation for firms. Studies have shown that these bans can narrow the pay gap by increasing salaries for disadvantaged groups, as workers hired by employers subjected to the bans are able to negotiate better wages for themselves (e.g., Barach et al. 2021). However, even for groups that are not disadvantaged, SHBs can still have effects. Bessen et al. (2024) find that SHBs can also increase male workers with lower reservation wages. As a result, the ban can significantly increase the burden on firms when it comes to managing employee salaries. Moreover, SHBs can impose additional burdens on employers, such as increased time and costs associated with interviewing and selecting new employees. Opponents of SHBs contend that engaging in open discussions about salary history offers benefits to employees in terms of making informed decisions about job opportunities, as well as allowing employers to effectively screen out applicants whose current salary expectations exceed what the employers are prepared to offer (Kaschak 2021). Supporting this viewpoint, Barach et al. (2021) conduct a field experiment wherein employers were unable to access the compensation history of job applicants. The study findings reveal that these treated employers evaluate approximately 7% more workers and conduct more thorough evaluations, including asking more substantive questions. Therefore, it

is important to consider the potential ramifications of implementing SHBs, particularly with regard to the financial implications for firms in terms of their human capital costs. Labor costs, being a critical factor of production, typically constitute a substantial proportion, approximately two-thirds, of the overall expenditures associated with the production of goods and services (Bernanke 2004; Cao et al. 2020). For instance, according to the Annual Survey of Manufacturers, payroll and employee benefits in the U.S. manufacturing sector amounted to a staggering $828 billion in 2015, which surpasses the $175 billion allocated to capital expenditure. Given the pivotal role and substantial magnitude of labor costs, the enactment of SHBs may potentially exert adverse effects on firms' operating efficiency and overall profitability.

Furthermore, opponents of SHBs have raised concerns regarding the potential unintended consequences, specifically information asymmetry and adverse selection in labor markets (e.g., Meli et al. 2019; Sran et al. 2020; Barach et al. 2021; Davis et al. 2022). Wages play a crucial role as a signaling mechanism, as firms are compelled to offer higher wages to skilled employees in order to extract optimal effort that is not directly observable (e.g., Shapiro and Stiglitz 1984). Thus, a worker's salary history conveys information about how their previous employers evaluated their quality. By restricting access to employee-specific salary information, SHBs exacerbate information asymmetry between employers and job applicants, resulting in heightened labor market frictions and an increased reliance on general characteristics. When employers lack access to salary history under SHBs, they may treat a job-switching individual as a new entrant to the labor market and assume their productivity is closer to the average, thereby offering an initial wage based on the average productivity level. This could impede workers' ability to switch jobs, which is one potential method for underpaid employees to escape pay inequality (Becker 1971), as high-performing employees are required to relinquish their prior records of high productivity and above-average salaries when

considering job transitions (Meli et al. 2019). Conversely, low-performing employees are more likely to switch jobs and accept offers under SHBs because they can shed their histories of low productivity and secure higher salaries from new firms which align with the market average. This can lead to an elevated likelihood of hiring unqualified employees and issues of overpayment for firms. For example, in the field experiment studied by Barach et al. (2021), they find that treated employers who are unable to observe the compensation history hire workers with 13% lower past average salaries, while workers hired by treated employers negotiate better wage bargains for themselves, receiving 9% more compared to control groups. This finding aligns with the "bargain hunting" phenomenon identified in the labor economics literature (Oyer and Schaefer 2011), where reduced information about workers' productivity causes low-experience/low-wage-bid workers to appear more appealing relative to high-experience/high-wage-bid workers. Additionally, Davis et al. (2022) find a 3% decrease in new hire wages under public sector SHBs. Consequently, it appears that SHBs may disproportionately benefit low-performing/low-experience/low-wage-bid employees at the expense of high-performing employees, potentially resulting in reduced labor investment efficiency for firms.

Moreover, the situation can worsen under SHBs, as potential employers may draw inferences about job changers and job applicants to be lower productivity, leading to lower pay offers and a decrease in the number of new hires due to increased uncertainty (Sran et al. 2020; Davis et al. 2022; Sherman, Brands, and Ku 2023; Zhai 2023). SHBs can result in firms offering lower salary packages at the expense of leaving positions unfilled for longer periods (Delfgaauw and Dur 2007). Sran et al. (2020) find a decline in the number of new hires and reduced pay offers in job postings following the implementation of SHBs, indicating a heightened information asymmetry faced by potential employers, resulting in the inference of adverse selection within the pool of job applicants. Likewise, Zhai (2023) conducts a study

demonstrating that the introduction of SHBs lead to an average employment reduction of 1.04% in local firms compared to areas without such regulations.

Collectively, the imposition of SHBs could adversely affect firms' matching capabilities with workers, exacerbate information asymmetry, and contribute to adverse selection dynamics within labor markets. This, in turn, may disproportionately benefit individuals with limited experience, lower productivity levels, and lower wage expectations, thereby increasing the likelihood of firms hiring employees of inferior quality and encountering issues related to overpayment. Thus, in contrast to attract more talented employees, the policy may impede firm performance by increasing friction in a firm's talent-recruitment procedures. Consequently, the efficiency of labor investment may deteriorate, leading to a decline in firms' future performance. As a result, the adoption of SHBs may elicit negative reactions from investors.

Taking these findings and considerations together, I formulate the following hypothesis.

Hypothesis: *There is a negative stock price reaction to the events increasing the likelihood of the passage of salary history bans.*

Nonetheless, there are still grounds to anticipate minimal market reaction to the implementation of SHBs. On the one hand, it is crucial to recognize that bans in some states typically come with an important caveat: applicants have the option to voluntarily disclose their pay history during the hiring process, even in the absence of employer inquiries. Empirical evidence from a survey conducted by Cowgill, Agan, and Gee (2022) reveals that a significant percentage of workers willingly provide salary history information, even when SHBs prevent employers from asking. When prompted by the disclosure of salary history from rival job candidates, an additional 47% of workers indicate a willingness to disclose their own salary history which aligns with disclosure theory, suggesting that firms may perceive silence regarding salary history as a negative signal. Supporting these insights, Agan, Cowgill, and Gee (2020) conduct a survey with 500 participants to assess whether they would disclose their

salary history in hypothetical scenarios. Contrary to concerns that only well-paid workers would share their salary history, the survey shows that relatively highly paid workers only have a slightly higher likelihood of disclosure, indicating a growing trend of workers feeling compelled to disclose their salary history to differentiate themselves from lower-quality candidates. The voluntary nature of salary history disclosure, coupled with the unraveling phenomenon may mitigate the anticipated impact of SHBs on labor markets, leading to insignificant market reactions. On the other hand, if the implementation of SHBs significantly increases labor costs for firms, they may respond by raising product prices and shifting the burden onto customers. This strategy could potentially mitigate the adverse effects of SHBs. Consequently, how investors react to the passage of SHBs remains to be an empirical question.

3. Sample, variables, and research design

3.1 Sample and data

The initial sample consists of all US listed firms in Compustat whose headquarters are in the treated states. In this paper, the treated states are those who mandate private sector employers to enact SHBs and do not require firms to disclose pay range information in the same legislations. Then I exclude financial firms (SIC 6000-6999) and utility firms (SIC 4900-4999) and delete firms without sufficient data in the CRSP to estimate abnormal returns.[11]

To test the market perception of SHBs in the United States, I assess the market reaction around the four key legislative event dates that significantly increase the likelihood of the passage of laws (law introduced date, first passage date for each chamber, and governor signed date) for each firm in the treated states, based on previous research indicating that such dates can provide valuable new information about the probability of regulatory passage (Bhagat and

[11] There are 11 states that mandate private sector employers to enact SHBs and do not require firms to disclose pay range information in the same laws. However, because Vermont does not have observation after sample selection, actually there are only 10 treated states in the sample.

Romano 2002).[12] Table 1 lists all the event dates in the sample. The event dates start from 28 Jan 2016 (the introduced date of the first SHB passed in Massachusetts) to 31 July 2019 (the governor signed date of the law passed in Illinois), resulting in 2,572 firm-event observations in the final sample.

3.2 Measurement of abnormal returns

To test the market reactions to SHBs, I investigate whether the market reacts to the major legislative dates of states' SHB regulations by calculating three-day cumulative abnormal returns (CAR) in the window -1 to +1 in trading days relative to the event dates. As prior literature (e.g., Horton and Serafeim 2010; Larcker, Ormazabal and Taylor 2011; Kimbrough and Wang 2014; Bonaimé 2015), I use two methods to calculate abnormal returns. First, I use market-adjusted model as follow:

$$AR_{it} = R_{it} - R_{mt} \quad (1)$$

Where AR_{it} is abnormal return for firm *i* in day *t*, R_{it} is the daily return for firm *i* in day *t*, and R_{mt} is the CRSP value-weighted market return in day *t*. Second, I use market-model as an alternative measure for abnormal returns which are calculated as:

$$AR_{it} = R_{it} - \alpha_i - \beta_i R_{mt} \quad (2)$$

The coefficient α_i and β_i are estimated by regress firm *i*'s daily return R_{it} on market return R_{mt} over a 200-day window consisting of days -230 to -30 relative to the event dates with at least 120 observations.

[12] It is not guaranteed that a bill will be passed after its introduction without uncertainty. For example, Nebraska has introduced LB 249 on Jan 11, 2021 but indefinitely postponed it on Apr 20, 2022. Florida introduced HB1077 in Feb 2021 but the law died in Regulatory Reform Subcommittee later. Related information is available at: https://nebraskalegislature.gov/bills/view_bill.php?DocumentID=43679; https://flsenate.gov/Session/Bill/2021/1077.

4. Empirical results

4.1 Univariate analyses

I first examine the market reaction to each legislative date and the aggregated market reaction to assess whether U.S. investors on average perceive SHBs adoption to be beneficial or costly for firms. Table 2 reports the three-day cumulative abnormal returns measured over -1 to +1 for each legislative date including introduced date, 1st chamber first passed date, 2nd chamber first passed date, and governor signed date, and overall market reaction across all event dates as Four event returns. Consistent with the hypothesis, Panel A documents negative cumulative abnormal stock returns for each legislative date and an average negative market reaction across all events of -0.72% that statistically significant at the 1% level. Results in Panel B by using alternative market-model to calculate abnormal returns show similar results and tend to support the inference of a general negative investor reaction to events that increase the likelihood of SHBs adoption. I further conduct the robustness tests by using alternative windows and methods to calculate cumulative abnormal returns. Table 3 suggests that aggregated abnormal returns to SHBs are significantly negative with different windows and when using Fama-French three- and five-factor models which show that the results are not sensitive to the window length and the model for CAR calculation.

Overall, the univariate analyses provide some evidence in support that investors perceive the costs of SHBs adoption outweigh the benefits. This finding is consistent with the underlying hypothesis positing that the prohibition of firms from accessing employee salary history engenders heightened information asymmetry, thereby giving rise to amplified adverse selection and diminished efficiency in labor investment. Consequently, the anticipated outcome is a decline in firm performance and overall firm value.

4.2 Cross-sectional tests

4.2.1 Model specification

After a univariate analysis of investor responses to each of the legislative events by testing the cumulative abnormal returns surrounding the event dates, as well as their overall perception of the effects of SHBs on firms, this section proceeds to conduct a series of cross-sectional tests aimed at substantiating the primary hypothesis underlying investors' negative reaction to the passage of SHBs. Specifically, the investigation examines whether the market's response to each event is associated with factors such as firms' existing labor-related costs, labor investment inefficiency, labor market conditions, and product market competition. To evaluate the cross-sectional variations in market responses to SHBs, the following model is employed:

$$CAR\%_{ie} = \alpha_o + \beta_1(Cost_{ie}\ or\ Inefficiency_{ie}\ or\ Market_{ie}) + \beta_2 Size_{ie} + \beta_3 MTB_{ie} + Industry\ FE + State\ FE + Year\ FE + \varepsilon_{ie} \quad (3)$$

Where $CAR\%_{ie}$ is the 3-day cumulative abnormal return in percent for firm *i* around event *e*. The variable of interest is $(Cost_{ie}\ or\ Inefficiency_{ie}\ or\ Market_{ie})$ which refers to different measures for labor-related costs, labor investment inefficiency or labor and product market conditions, respectively. I expect the coefficient β_1 to be significantly negative if the hypothesis is supported. In addition, I control for firm size and market-to-book ratio which are potentially influence market returns and include industry, state, and year fixed effects in most regressions.[13] All variables on the right hand of equation (3) take the latest value before the event dates. Appendix A presents the definitions of the variables and details regarding the measurements.

Table 4 presents the descriptive statistics and correlation coefficients for the variables used in the cross-sectional tests. To address potential outliers, all continuous variables have been winsorized at the 1st and 99th percentiles. The observed correlations between the cumulative

[13] For those industry-level independent variables, I only include state and year fixed effects.

abnormal returns and the other cross-sectional variables provide preliminary empirical support for the argument that firms characterized by higher labor burdens, less efficient labor management, and operating in highly competitive markets are perceived by investors to face more pronounced negative consequences upon the implementation of SHBs. A more comprehensive analysis and discussion of these findings will be presented in the subsequent section.

4.2.2 Labor related costs

Advocates argue that the prohibition of employers from accessing applicants' salary history can potentially enhance employees' bargaining power by eliminating the advantages that employers have in leveraging applicants' reservation wages and exploiting past inequities based on information derived from salary history. Consequently, proponents argue that the enactment of SHBs can address pre-existing disparities and contribute to higher salaries for individuals who have been underpaid. Recent research in this area has examined the effectiveness of SHBs in reducing gender and racial pay gaps, with findings indicating that such bans can effectively increase wages for women, minorities, and other disadvantaged groups (Sinha 2019; Sinha 2022; Mask 2023; Bessen et al. 2024).

Apart from the increased costs associated with employee salaries, these laws can result in higher labor costs, complicate the hiring process, and increase the risk of litigation. Firstly, employers must incur additional expenses to ensure compliance with SHBs and allocate resources to train human resource professionals and hire managers to avoid any illegal inquiries. Secondly, the interview and selection process for new employees may become more time-consuming and costlier (Kaschak 2021; Barach et al. 2021). Consequently, SHBs can significantly raise labor-related costs for firms. As labor costs typically constitute a substantial portion of the expenses in producing goods and services (Bernanke 2004; Cao et al. 2020), firms already burdened with higher labor costs are likely to face increased scrutiny from

investors due to concerns about their operating efficiency and profitability resulting from the additional labor burdens imposed by SHBs. Thus, I expect the market reaction should be more negative for those firms.

To proxy for labor related costs, following Lee, Mauer, and Xu (2018), I use selling, general and administrative expenses as a proxy for labor expenses. Column (1) and (2) of Table 5 show that for firms with higher SG&A, they suffer more negative abnormal returns.

Additionally, I anticipate that firms highly dependent on human capital will experience more pronounced negative market reactions. Human capital, being a valuable and crucial resource for value creation, plays a significant role in these firms. Employees in human-capital-intensive firms generally possess advanced expertise, education, and labor skills, leading to higher salary requirements. As a result, such firms tend to face higher costs associated with their workforce. Concurrently, labor adjustment costs escalate substantially with the level of labor expertise and the employment of high-skilled labor (e.g., Hamermesh et al. 1996; Ochoa 2013; Cao et al. 2020). Furthermore, high human-capital firms are more susceptible to heightened labor market frictions due to intensified competition for "talented employees", which can result in wage competition and further amplify labor costs. The increased labor-related costs resulting from the enhanced wage bargaining power of employees due to the implementation of SHBs may exert more significant effects on human-capital-intensive firms. To test the conjecture, following prior literature (e.g., Ertugrul 2013; Ghaly et al. 2015; Cao et al. 2020), I use two measures to proxy for human capital intensity. First, I identify human-capital-intensive firms as those with a higher ratio of research and development (R&D) expenses to total sales, as innovative firms are more likely to rely on employees with highly skilled, highly educated, and expertise-driven profiles. Second, I classify firms operating in human-capital-intensive industries, including subcategories within the telecommunications,

high-tech, and healthcare sectors, as high human-intensive firms.[14] Consistent with the assumption, results in the column (3) to (6) in Table 5 demonstrate that investors expect the negative impacts of SHBs to be more pronounced among firms with higher human capital intensity.

4.2.3 Labor investment inefficiency

Labor investments carry significant economic significance, and the effectiveness of such investments is crucial for determining a firm's competitive success. The recognition of human capital as a critical determinant of a firm's competitive advantage has been increasingly emphasized in the literature and labor investment efficiency has attracted researchers' attention (e.g., Bernanke 2004; Jung et al. 2014; Ghaly et al. 2015, 2020; Cao et al. 2020; Khedmati, Sualihu, and Yawson 2020). Inefficient labor investments can give rise to substantial costs, as deviating from the optimal level of labor investment can introduce distortions that result in additional expenses. Surplus labor beyond the optimal level incurs costs associated with excess employees, while a deficiency in labor utilization underutilizes available financial resources. Both situations can exert adverse effects on operating efficiency and firm performance. Conversely, efficient labor investment cultivates enhanced productivity, facilitates revenue generation, and ultimately contributes to elevated earnings and augmented firm value (Merz and Yashiv 2007).

As discussed in the hypothesis development, the implementation of policies that restrict firms' access to employees' salary history, which serves as a potential signal of their productivity, can amplify information asymmetry between firms and job applicants. This, in turn, can contribute to adverse selection issues within the labor market. Consequently, the enactment of SHBs may have a negative impact on firms' ability to effectively match with

[14] Following Ertugrul (2013), I define human-capital-intensive industries to include all subcategories of the telecommunications, high-tech, and healthcare industries, specifically include the following two- and three-digit SIC codes: 283, 357, 36, 384, 48, and 80.

suitable workers. Moreover, these bans may disproportionately benefit individuals with limited experience, lower levels of productivity, and lower wage expectations. As a result, there is an increased likelihood that firms will hire employees of inferior quality and encounter challenges related to overpayment, leading to less efficient management of their workforce. Hence, for firms that already exhibit poor labor investment efficiency prior to the adoption of SHBs, the introduction of such bans may further exacerbate their labor management issues and worsen operating inefficiencies. Consequently, these firms are more likely to experience a more significant decline in overall firm performance.

To proxy for labor investment inefficiency, Table 6 uses abnormal net hiring *Ab_Nethire* which is the absolute value of the difference between the observed level of labor investment and that justified by economic fundamentals based on Jung et al. (2014), where labor investment is measured as the change in the number of employees. Align with the conjecture, the market reaction to SHBs is stronger among firms with higher labor investment inefficiency prior to the adoption of SHBs.

4.2.4 Labor market conditions

The dynamics of the labor markets exert a significant influence on the bargaining power equilibrium between firms and their employees, as well as on the efficiency of wage determination efficiency (e.g., Bagga 2023; Caldwell et al. 2024; Schubert et al. 2024). Bagga (2023) examines the association between employer market power and wages and reveals that an increase in employer market power, as indicated by a decrease in the number of firms per worker, constrains workers' alternative employment opportunities or outside options. Consequently, this exerts a suppressive effect on wages and curtails workers' ability to pursue better offers through job mobility. The standard labor market models emphasize the dependence of wages on a worker's outside option. In a perfectly competitive market, there is always an equally attractive outside option available, and competition among homogeneous

employers ensures that workers are compensated based on their marginal productivity, reflecting wage efficiency. However, extant literature documents a decline in workers' outside options in more concentrated labor markets, and a positive relationship between outside options and wages (Caldwell et al. 2024; Schubert et al. 2024). Accordingly, a reduction in labor market competition diminishes the value of workers' outside options and detrimentally affects their wages and incentives. In other words, when labor market competition is strong, the value of employees' outside options and their bargaining power in wage negotiations increase, leading to comparatively higher and more efficient salary levels.

SHBs have the potential to significantly impact the bargaining power dynamics between employers and employees by eliminating the informational advantages that employers possess in relation to applicants' salary histories. These bans prohibit employers from accessing and utilizing salary history information to infer applicants' reservation wages, thereby mitigating the exploitation of past wage inequities. In labor markets characterized by competition or high labor mobility, employees are positioned more advantageously relative to employers. This advantageous position arises from employees possessing increased leverage during wage negotiations, primarily due to the availability of more attractive outside offers. As a result, employees are able to secure a higher proportion of the joint match value, while firms experience a decrease in their share. By removing employers' ability to rely on salary history as a basis for determining compensation, SHBs contribute to a rebalancing of power dynamics in favor of employees. This shift enables employees to negotiate more favorable wage terms and further disadvantages firms operating in competitive markets.

Firms confronting intensive labor market competition and firms encountering high labor risk due to the high mobility of their skilled labor force often respond by offering higher wages and making additional investments to strengthen employee relations because employees have more outside options and relatively stronger bargaining power. Thus, further reinforcement of

bargaining power under SHBs may have more significant effects on those firms. In line with prior literature (e.g., Wei, Hu, and Chen 2020), I employ the number of publicly traded firms within the same industry and located in the same state as the focal firms' headquarters to serve as a proxy for labor market competition. To capture labor mobility, I adopt the construct introduced by Donangelo (2014), which captures the degree of ex-ante flexibility that workers in a specific industry possess to transition across industries. When examining the effects of labor mobility, it is important to consider the potential confounding effect of labor skill levels within the industry. Empirical evidence suggests that employees in industries with lower turnover rates tend to have higher levels of education and skills (Titman and Wessels 1988; Bae, Kang, and Wang 2011). To address this issue, I control for labor skill by restricting the sample to firms operating in industries characterized by a highly skilled labor force (Ghaly et al. 2015). Following prior literature (Donangelo 2014; Belo, Li, Lin, and Zhao 2017; Cao et al. 2020), the industry average labor skill level is measured as the proportion of workers in the industry employed in occupations with a JobZones index equal to 4 or 5. To identify firms that are dependent on skilled labor, I classify firms employing a high share of skilled labor as those falling within the top 50% of labor skills. The data used for these calculations are sourced from the Occupational Employment Statistics (OES) program of the Bureau of Labor Statistics and the US Department of Labor's O*NET program classification of occupations by skill level.

Overall, results of Table 7 show that the market reactions are more negative when employees have relatively stronger bargaining power.

4.2.5 Product market competition

In this section, I examine whether firms operating in competitive product markets experience more pronounced negative market reactions. One potential argument suggests that if the implementation of SHBs significantly increases labor costs for firms, they may respond by raising product prices and shifting the burden onto customers. This strategy could

potentially mitigate the adverse effects of SHBs. Therefore, in less competitive markets, firms may possess stronger bargaining power and product pricing right, enabling them to pass on costs to customers.

To test this conjecture, following Hoberg, Phillips, and Prabhala (2014), I use product market fluidity to proxy for product market competition which is derived from an analysis of product descriptions extracted from firms' annual reports and captures the degree to which a firm's products are responsive to changes in rival products, thus serving as an indicator of the intensity of competition within the market. Furthermore, I employ the total similarity score for each firm, as constructed by Hoberg and Phillips (2016), utilizing a textual analysis of business descriptions found in 10-K annual filings and calculating the product similarity for every pair of firms. Then the total similarity score is the sum of the pairwise similarities between the focal firm and all other firms and a higher similarity score suggests higher market competition. Table 8 shows that market reaction to SHBs is more negative when firms face higher competition in product markets.

4.2.6 Salary expectations

Finally, I test the cross-sectional variations in market reactions at the state level. There are 4 states – Delaware, Vermont, Hawaii, and Illinois – that explicitly permit employers to discuss and negotiate compensation expectations during the hiring process. In these states, employers may still be able to infer applicants' reservation salaries and make use of their salary expectations, therefore potentially reducing the effectiveness of SHBs. In table 9, I categorize states into two groups: states that permit inquiries about salary expectations and states that do not have such a requirement. Then I investigate the overall market reaction for each group. The findings suggest that the market reactions are primarily concentrated in the states where salary expectation inquiries are not allowed.

4.3 Consequences in firm performance

By now, I have tested how equity investors react to the important legislative events that increase the likelihood of the passage of SHBs which indicates their perception of the potential effects of SHBs adoption on firms. In this section, I further investigate the real consequences of SHBs on firms' performance after the regulations take into effect.

To see whether the implementation of SHBs exert negative effects on firms' performance as what investors perceive to happen, I use three proxies to measure firm operating and financial performance: labor productivity, ROS, and fiscal year buy-and-hold return, and adopt a stacked DID analysis over a [-5, +5] time window to test the effect of SHBs on firm performance. Specifically, I estimate the following empirical model.

$$Performance_{it} = \beta_0 + \beta_1 Treat_s \times Post_{st} + \beta_2 X_{it} + \theta_{sc} + \gamma_{tc} + \varepsilon_{it} \quad (4)$$

Where subscript *i* indexes firm, *s* indexes the state of firm *i*, *t* indexes year, and *c* indexes cohort. *Treat* is an indicator variable equal to 1 if the firm belongs to the treatment states that mandate SHBs for private sector employees without salary range disclosure requirement at the same time and 0 for the control firms in the states without SHBs. Specifically, I construct one cohort for each treated state. Each cohort is composed of treatment observations and control observations in a *t*-5 to *t*+5 window around the effective date for each SHB in year *t*. *Post* is an indicator variable equal to 1 for the post-enactment period and 0 for the pre-enactment period. X_{it} is a set of control variables including firm size, market-to-book ratio, ROE, leverage, quick ratio, labor intensity, operating cash flows and hiring volatility, institutional ownership, and union coverage. θ_{sc} and γ_{tc} are cohort-state and cohort-year fixed effects. Standard errors are clustered by cohort-state. Results reported in Table 10 show significantly negative coefficients on *Treat*×*Post* for all performance variables, suggesting that firms' operating and financial performance decrease more in treatment firms relative to control firms. The findings lend support to the hypothesis that SHBs could largely increase labor related burdens and adversely

impact labor investment efficiency for firms, leading to lower firm performance and a decline in firm value.

5. Conclusions

In this study, I examine the market reaction to the passage of SHBs to test whether investors perceive the prohibition of salary history information as beneficial or costly for firms. Specifically, I investigate the three-day cumulative abnormal returns around the main legislative event dates of SHBs for the states that mandate firms to enact SHBs during their hiring process. I find an average negative market reaction across all events which indicates that investors believe that the costs of SHBs adoption will outweigh the benefits.

Then, in the cross-sectional tests, I find that the market reactions are more negative among firms with more labor-related costs, less efficient labor investment, operating in more competitive labor and product markets, and in the states without allowing for inquiries about salary expectations. I also find a decline in firm operating and financial performance in the states enacting SHBs. These findings lend support to the argument that the prohibition of salary history information could have adverse implications for firms' matching capabilities with workers, exacerbate information asymmetry, and contribute to adverse selection dynamics within labor markets. This, in turn, may disproportionately benefit individuals with limited experience, lower productivity levels, and lower wage expectations, thereby increasing the likelihood of firms hiring employees of inferior quality and encountering issues related to overpayment. Consequently, the efficiency of labor investment may deteriorate, leading to a decline in firms' future performance.

Collectively, this study extends the literature on the effects of SHBs by demonstrating that the equity market perceives the prohibition of salary history disclosures as imposing net costs on firms. Given the growing importance of human capital as a critical determinant of a firm's competitive advantage, the findings suggest that regulators and policymakers may need to re-

evaluate whether SHBs are an effective tool for mitigating pay inequality and consider the unintended consequences of interventions.

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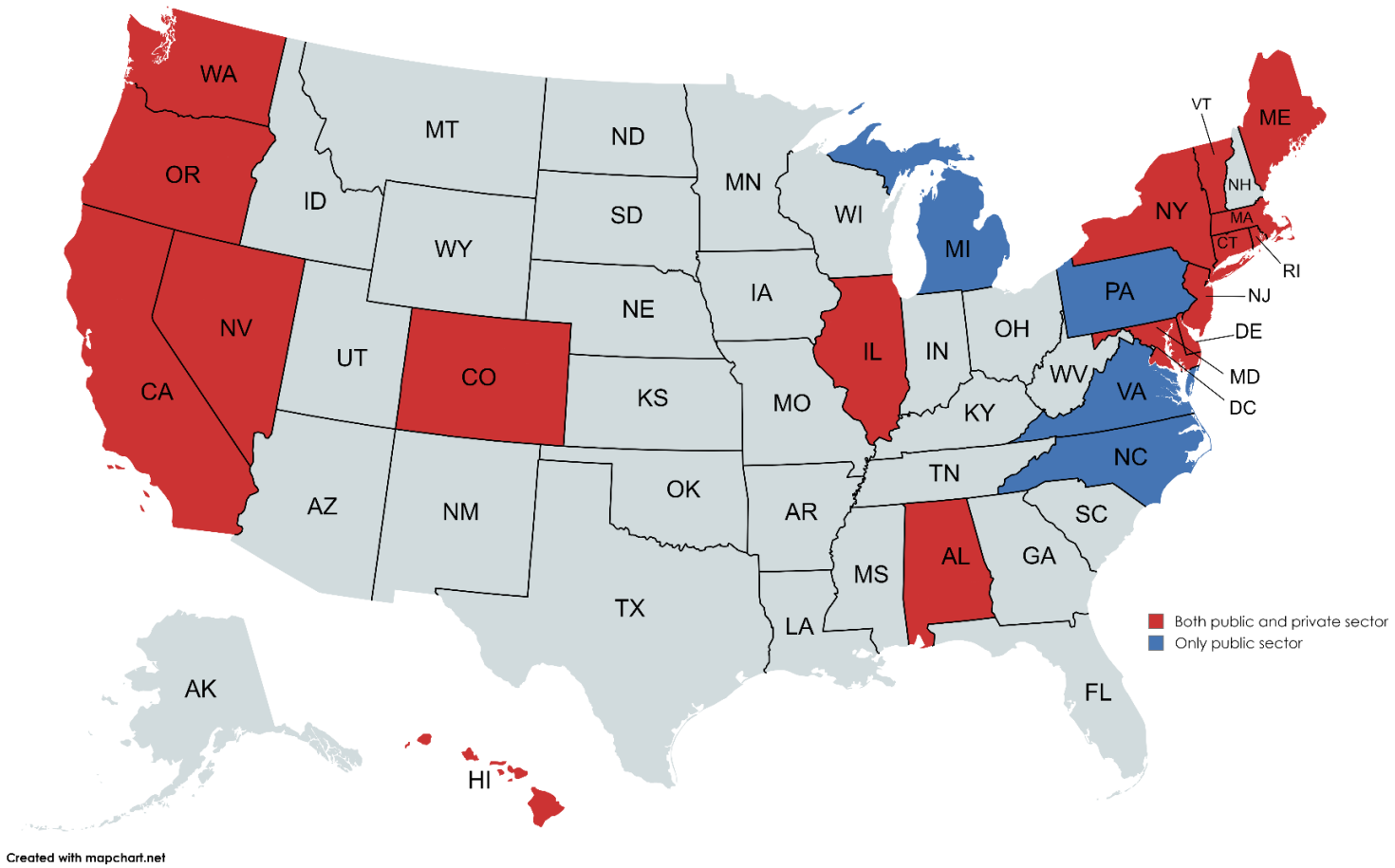
Appendix A: Definitions and Measurement of the Variables

Variable	Definition
MA_CAR	Cumulative market-adjusted abnormal return, measured as the sum of three-day abnormal returns centered on the event date. Abnormal return is the difference between individual stock return and the CRSP value-weighted market index.
MM_CAR	Cumulative market-model abnormal return, measured as the sum of three-day abnormal returns centered on the event date. Abnormal return is based on market model parameters calculated over the period -230 days to -30 days relative to the event date.
FF3_CAR	Cumulative abnormal return by using Fama-French three-factor model, measured as the sum of three-day abnormal returns centered on the event date. Abnormal return is based on Fama-French three-factor model parameters calculated over the period -230 days to -30 days relative to the event date.
FF5_CAR	Cumulative abnormal return by using Fama-French five-factor model, measured as the sum of three-day abnormal returns centered on the event date. Abnormal return is based on Fama-French five-factor model parameters calculated over the period -230 days to -30 days relative to the event date.
SG&A	Selling, General & Administrative expenses divided by the number of employees.
Ab_Nethire	Abnormal net hiring is the absolute value of the difference between the observed level of labor investment and that justified by economic fundamentals based on Jung et al. (2014).
ProdFluidity	Following Hoberg et al. (2014), I proxy for the intensity of competition in product markets using product market fluidity that is based on product descriptions found in firms' 10–K filings and captures the extent to which a firm's products are sensitive to the evolution of rivals' products. It is defined as the similarity between a firm's vocabulary and the change in the overall use of vocabulary by rivals in a given industry. The data is available at https://hobergphillips.tuck.dartmouth.edu/.
ProdSimilarity	Following Hoberg et al. (2016), I use total similarity score for each firm to proxy for product market competition. The data is available at https://hobergphillips.tuck.dartmouth.edu/.
Human_Intensity	R&D expenditure divided by total sales.
Human_Intensive_Industries	Indicator variable equal to 1 for firms that belong to all subcategories of the telecommunications, high-tech and healthcare industries by two- and three-digit SIC codes, and 0 otherwise. Following Ertugrul (2013), I define human-capital-intensive industries to include all subcategories of the telecommunications, high-tech, and healthcare industries, specifically include the following two- and three-digit SIC codes: 283, 357, 36, 384, 48, and 80.
Labor_Competition	Number of public firms in the same two-digit SIC code industry and same state.
Labor_Mobility	To measure labor mobility, I use the construct introduced by Donangelo (2014), which captures the ex-ante flexibility that workers in a given industry have to move across industries. Data on the number of employees by occupation is from the Occupational Employment Statistics (OES) program of the Bureau of Labor Statistics.
Labor_Skills	The industry average number of employees working in occupations with a JobZones index equal to 4 or 5 as a proxy for the degree of reliance on skilled labor. JobZones data from Occupational Information Network (O*Net). Data on the number of employees by occupation is from the Occupational Employment Statistics (OES) program of the Bureau of Labor Statistics.
Skill-Dependent Firms	I define firms employing a high share of skilled labor as those in the top 50th percentile of *Labor_Skill* each year as skill-dependent firms.
Labor productivity	Sales divided by the number of employees.
ROS	Net income divided by total sales.
Return	Fiscal year buy-and-hold return.
Size	Natural log of market value of firm.
MTB	Market-to-book ratio.
ROE	Net income divided by equity.

Lev	Sum of debt in current liabilities and long-term debt divided by total assets.
Quick	Quick ratio.
Labor_Intensity	The number of employees divided by total assets.
Std_CFO	Standard deviation of firm's cash flows from operations over last 5 years.
Std_Nethire	Standard deviation of firm's change in the number of employees over last 5 years.
Institutional Ownership	Institutional shareholdings.
Union_Coverage	Industry-level rate of labor unionization. The data is available at https://www.unionstats.com/.

Appendix B: Figures and Tables

Figure 1: US states with state-wide salary history bans



This figure shows the states in the United States that have state-wide salary history bans with red refers to states covering both public and private sector employers and blue refers to states only covering public agencies.

Table 1: Primary legislative event dates

This table represents the states that passed SHBs covering private sector employers and the main legislative events examined in this study. This study only focuses on SHBs that do not have pay range disclosure requirement at the same time. Treated state is an indicator that equals 1 if the state has passed SHB without pay disclosure requirement, and 0 otherwise.

State	Legislation	Introduced date	1st chamber passed date	2nd chamber passed date	Governor signed date	Effective Date	Pay range disclosure requirement	Treated state
Massachusetts	S.2119	20160128	20160128	20160714	20160801	20180701	X	1
Oregon	HB.2005	20170206	20170328	20170517	20170601	20171006	X	1
Delaware	HS 1 for HB 1	20170425	20170427	20170606	20170614	20171214	X	1
California	AB-168	20170117	20170522	20170912	20171012	20180101	✓	0
Vermont	H.294	20170216	20180216	20180418	20180511	20180701	X	1
Connecticut	HB.5386	20180301	20180419	20180504	20180522	20190101	X	1
Hawaii	SB2351	20180119	20180306	20180406	20180705	20190101	X	1
Maine	LD278	20190122	20190402	20190402	20190412	20190917	X	1
Washington	HB1696	20190128	20190309	20190412	20190509	20190728	✓	0
Colorado	S.B. 19-085	20190117	20190404	20190427	20190522	20210101	✓	0
Alabama	HB225	20190319	20190515	20190529	20190611	20190901	X	1
New York	S6549	20190615	20190618	20190620	20190710	20200106	X	1
New Jersey	A1094	20180109	20190325	20190620	20190725	20200101	X	1
Illinois	HB0834	20190122	20190313	20190522	20190731	20190929	X	1
Maryland	HB123	20200115	20200313	20200316	20200508	20201001	✓	0
Nevada	SB293	20210322	20210419	20210521	20210602	20211001	✓	0
Rhode Island	SB270	20210210	20210302	20210629	20210706	20230101	✓	0

Table 2: Univariate Analyses

This table represents cumulative abnormal returns around the legislative event dates. Panel A reports CAR for the window (-1,1) by using market-adjusted model. Panel B reports the results with market-model abnormal returns. Cumulative abnormal returns are winsorized at 99% and 1%. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Market-adjusted Abnormal Returns					
	Introduced date	1st chamber passed date	2nd chamber passed date	Governor signed date	Four event returns
CAR (-1, +1)	-1.24%***	-0.55%***	-0.64%***	-0.42%**	-0.72%***
t-statistics	(-6.26)	(-2.81)	(-3.62)	(-2.15)	(-7.49)
Panel B: Market-model Abnormal Returns					
	Introduced date	1st chamber passed date	2nd chamber passed date	Governor signed date	Four event returns
CAR (-1, +1)	-1.11%***	-0.43%**	-0.48%***	-0.20%	-0.56%***
t-statistics	(-5.50)	(-2.18)	(-2.72)	(-1.02)	(-5.78)

Table 3: Robustness tests

This table reports cumulative abnormal returns with alternative windows and alternative methods of abnormal returns. Panel A reports results under different windows with market-adjusted and market-model returns. Panel B presents three-day cumulative abnormal returns with Fama-French three- and five-factor models. Cumulative abnormal returns are winsorized at 99% and 1%. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Alternative windows

	Introduced date		1st chamber passed date		2nd chamber passed date		Governor signed date		Four event returns	
	Market-adjusted	Market model	Market-adjusted	Market model	Market-adjusted	Market model	Market-adjusted	Market model	Market-adjusted	Market model
CAR (-2, +2)	-1.30%***	-1.10%***	-1.02%***	-0.77%***	-0.99%***	-0.78%***	-0.61%**	-0.34%	-0.98%***	-0.74%***
	(-5.11)	(-4.23)	(-3.90)	(-2.99)	(-4.39)	(-3.41)	(-2.40)	(-1.33)	(-7.82)	(-5.90)
CAR (-5, +5)	-1.76%***	-1.50%***	-1.63%***	-1.24%***	-0.72%*	-0.33%	-0.66%	-0.12%	-1.16%***	-0.76%***
	(-4.74)	(-3.87)	(-4.22)	(-3.11)	(-1.93)	(-0.87)	(-1.60)	(-0.30)	(-5.96)	(-3.85)
CAR (0, +1)	-0.76%***	-0.67%***	-0.59%***	-0.46%***	-0.34%**	-0.23%	-0.55%***	-0.40%**	-0.56%***	-0.44%***
	(-4.67)	(-4.02)	(-3.83)	(-2.95)	(-2.27)	(-1.58)	(-3.51)	(-2.53)	(-7.10)	(-5.53)
CAR (0, +5)	-1.18%***	-1.05%***	-1.24%***	-0.98%***	-0.49%*	-0.28%	-0.70%**	-0.47%	-0.88%***	-0.01%***
	(-4.50)	(-3.85)	(-4.21)	(-3.22)	(-1.86)	(-1.06)	(-2.42)	(-1.60)	(-6.33)	(-4.74)

Panel B: Fama-French Abnormal Returns

	Introduced date	1st chamber passed date	2nd chamber passed date	Governor signed date	Four event returns
FF3_CAR	-0.49%***	-0.40%**	0.20%	-0.21%	-0.21%**
t-statistics	(-2.69)	(-2.04)	(1.16)	(-1.06)	(-2.25)
FF5_CAR	-0.67%***	-0.46%**	0.04%	-0.25%	-0.33%***
t-statistics	(-3.65)	(-2.30)	(0.25)	(-1.26)	(-3.41)

Table 4: Descriptive statistics

This table presents descriptive statistics for the variables used in the cross-sectional analyses. Panel A reports distributions and Panel B shows the results of Pearson correlations. *MA_CAR%* is 3-day cumulative market-adjusted abnormal returns in percent. *MM_CAR%* is 3-day cumulative market-model abnormal returns in percent. *Ab_Nethire* is abnormal net hiring used to capture labor investment inefficiency which defined as the absolute value of the difference between the observed level of labor investment and that justified by economic fundamentals. *ProdFluidity* and *ProdSimilarity* are two variables to proxy for product market competition. Following Hoberg et al. (2014) and Hoberg et al. (2016), I proxy for the intensity of competition in product markets using product market fluidity and total similarity score for each firm. *Human_Intensity* and *Human_Intensive_Industries* are two variables to measure human-capital-intensive firms. *Human_Intensity* is calculated as the R&D expenditure divided by total sales. And high human-capital-intensive industries are defined as all subcategories of the telecommunications, high-tech, and healthcare industries following Ertugrul (2013). *Labor_Competition* is number of public firms in the same two-digit SIC code industry and same state. And *Labor_Mobility* is the ex-ante flexibility that workers in a given industry have to move across industries according to Donangelo (2014). Appendix A provides definitions of the variables.

Panel A: Distributions

Variable	N	Mean	Std	p25	p50	p75
MA_CAR%	2,524	-0.7152	4.8671	-2.645	-0.5594	1.4533
MM_CAR%	2,524	-0.5590	4.9217	-2.5963	-0.3801	1.5351
Size	2,524	6.3785	2.2834	4.6772	6.2843	7.9925
MTB	2,524	4.2775	10.7952	1.2362	2.3498	4.3278
SG&A	2,278	0.2404	0.4003	0.0521	0.1062	0.216
Ab_Nethire	1,964	0.1283	0.1711	0.0343	0.0723	0.1459
ProdFluidity	2,479	6.6587	3.9739	3.6102	5.588	8.7561
ProdSimilarity	2,495	11.6855	20.3069	1.0995	1.5511	5.5411
Human_Intensity	2,344	2.9944	23.0109	0	0.0158	0.1423
Human_Intensive_Industries	2,524	0.4168	0.4931	0	0	1
Labor_Competition	2,520	21.3853	22.9692	4	11	41
Labor_Mobility	824	0.6223	0.459	0.6278	0.6865	0.7407

Panel B: Pearson Correlations

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1) MA_CAR%	1											
(2) MM_CAR%	0.9826***	1										
(3) Size	0.0507**	0.0212	1									
(4) MTB	0.0137	-0.0111	0.0690***	1								
(5) SG&A	-0.0754***	-0.0745***	-0.1941***	0.0443**	1							
(6) Ab_Nethire	-0.0779***	-0.0793***	-0.1809***	0.024	0.2224***	1						
(7) ProdFluidity	-0.1102***	-0.1033***	-0.1115***	0.0930***	0.6191***	0.2581***	1					
(8) ProdSimilarity	-0.1151***	-0.1095***	-0.1750***	0.1063***	0.7750***	0.2999***	0.8147***	1				
(9) Human Intensity	-0.0573***	-0.0564***	-0.0441**	0.0444**	0.3849***	0.1551***	0.2614***	0.3170***	1			
(10) Human Intensive Industries	-0.0734***	-0.0678***	-0.1633***	0.0607***	0.4229***	0.1848***	0.5048***	0.5442***	0.1672***	1		
(11) Labor Competition	-0.1805***	-0.1775***	-0.1365***	0.0914***	0.5858***	0.2595***	0.6589***	0.7208***	0.3108***	0.5031***	1	
(12) Labor Mobility	-0.0547	-0.0462	-0.0638*	-0.0089	0.0809**	0.0756*	-0.0597*	0.0843**	0.0499	0.1284***	0.0945***	1

Table 5: Cross-sectional tests – Labor related costs

This table represents the results for cross-sectional tests that examine the role of labor related costs. Following Lee et al. (2018), I use selling, general and administrative expenses as a proxy for labor expenses. Following prior literature (e.g., Ertugrul 2013; Ghaly et al. 2015; Cao et al. 2020), I use two measures to proxy for human capital intensity. First, I identify human-capital-intensive firms as those with a higher ratio of research and development (R&D) expenses to total sales. Second, I classify firms operating in human-capital-intensive industries, including subcategories within the telecommunications, high-tech, and healthcare sectors, as high human-intensive firms. Appendix A provides definitions of the variables. Robust standard errors are clustered at the industry level. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	*CAR (-1, +1)%*					
	MA_CAR%	*MM_CAR%*	*MA_CAR%*	*MM_CAR%*	*MA_CAR%*	*MM_CAR%*
	(1)	(2)	(3)	(4)	(5)	(6)
SG&A	-0.4858***	-0.6435***				
	(-4.31)	(-4.55)				
Human_Intensity			-0.0044***	-0.0048***		
			(-3.58)	(-4.13)		
Human_Intensive_Industries					-0.4487*	-0.4223**
					(-2.00)	(-2.06)
Size	0.1034**	0.0353	0.1270**	0.0666	0.0886	0.0289
	(2.04)	(0.71)	(2.23)	(1.21)	(1.34)	(0.44)
MTB	0.0144*	0.0043	0.0049	-0.0017	0.0082	-0.0020
	(1.99)	(0.38)	(0.50)	(-0.14)	(1.44)	(-0.21)
Constant	-1.1821***	-0.5041	-1.4680***	-0.8976**	-1.1281**	-0.5586
	(-3.53)	(-1.54)	(-4.12)	(-2.59)	(-2.06)	(-1.01)
Industry fixed effects	Yes	Yes	Yes	Yes	No	No
State fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
No. of obs.	2,278	2,278	2,344	2,344	2,524	2,524
Adj. R^2	0.0237	0.0206	0.0311	0.0273	0.0205	0.0174

Table 6: Cross-sectional tests – Labor investment inefficiency

This table represents the results for cross-sectional tests that examine the role of labor investment inefficiency. Labor investment inefficiency is proxied by the abnormal net hiring which is the absolute value of the difference between the observed level of labor investment and that justified by economic fundamentals based on Jung et al. (2014), where labor investment is measured as the change in the number of employees. Appendix A provides definitions of the variables. Robust standard errors are clustered at the industry level. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	*CAR (-1, +1)%*	
	MA_CAR%	*MM_CAR%*
	(1)	(2)
Ab_Nethire	-1.9314**	-2.2785***
	(-2.60)	(-3.09)
Size	0.0949*	0.0417
	(1.81)	(0.82)
MTB	0.0042	-0.0014
	(0.34)	(-0.09)
Constant	-0.9030**	-0.3692
	(-2.44)	(-1.02)
Industry fixed effects	Yes	Yes
State fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
No. of obs.	1,964	1,964
Adj. R^2	0.0312	0.0272

Table 7: Cross-sectional tests – Labor market conditions

This table represents the results for cross-sectional tests that examine the role of labor market conditions. *Labor_Competition* is the number of publicly traded firms within the same industry and located in the same state as the focal firms' headquarters. To measure labor mobility, I use the construct introduced by Donangelo (2014), which captures the ex-ante flexibility that workers in a given industry have to move across industries. Column (3) and (4) restrict sample into firms operating in skill-dependent industries. Appendix A provides definitions of the variables. Robust standard errors are clustered at the industry level. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	*CAR (-1, +1)%*			
	MA_CAR%	*MM_CAR%*	*MA_CAR%*	*MM_CAR%*
	(1)	(2)	(3)	(4)
Labor_Competition	-0.0511***	-0.0559***		
	(-10.95)	(-11.54)		
Labor_Mobility			-0.6270*	-0.5600*
			(-2.13)	(-2.15)
Size	0.1390**	0.0780	0.1730*	0.1071
	(2.35)	(1.35)	(2.03)	(1.22)
MTB	0.0112	0.0021	-0.0057*	-0.0195**
	(1.60)	(0.21)	(-1.82)	(-2.73)
Constant	-0.5596*	0.1281	-0.8772	-0.3257
	(-1.72)	(0.42)	(-1.34)	(-0.51)
Industry fixed effects	Yes	Yes	No	No
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
No. of obs.	2,520	2,520	824	824
Adj. R^2	0.0461	0.0437	0.0031	0.0015

Table 8: Cross-sectional tests – Product market competition

This table represents the results for cross-sectional tests that examine the role of product market competition. Following Hoberg et al. (2014), I use product market fluidity to proxy for product market competition which is derived from an analysis of product descriptions extracted from firms' annual reports and captures the degree to which a firm's products are responsive to changes in rival products. The total similarity score for each firm, as constructed by Hoberg et al. (2016), utilizing a textual analysis of business descriptions found in 10-K annual filings and calculating the product similarity for every pair of firms. Then the total similarity score is the sum of the pairwise similarities between the focal firm and all other firms. Appendix A provides definitions of the variables. Robust standard errors are clustered at the industry level. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	*CAR (-1, +1)%*			
	MA_CAR%	*MM_CAR%*	*MA_CAR%*	*MM_CAR%*
	(1)	(2)	(3)	(4)
ProdFluidity	-0.0955***	-0.0907***		
	(-3.17)	(-3.37)		
ProdSimilarity			-0.0172**	-0.0180***
			(-2.42)	(-3.29)
Size	0.1325**	0.0710	0.1261**	0.0642
	(2.46)	(1.34)	(2.26)	(1.19)
MTB	0.0099	0.0011	0.0099	0.0012
	(1.50)	(0.10)	(1.37)	(0.11)
Constant	-0.9738**	-0.4205	-1.3689***	-0.7735**
	(-2.25)	(-1.04)	(-3.33)	(-2.05)
Industry fixed effects	Yes	Yes	Yes	Yes
State fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
No. of obs.	2,479	2,479	2,495	2,495
Adj. R^2	0.0351	0.0295	0.0339	0.0289

Table 9: Cross-sectional tests – Salary expectations

This table reports the aggregated market reactions for states allowing inquiries salary expectations and states do not have the requirement. There are four states explicitly allowing that employers could discuss salary expectations with applicants, including Delaware, Vermont, Hawaii, and Illinois. Cumulative abnormal returns are winsorized at 99% and 1%. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

	Four event returns			
	With salary expectation		Without salary expectation	
	Market-adjusted	Market model	Market-adjusted	Market model
CAR (-1, +1)	-0.35%*	-0.23%	-0.80%***	-0.63%***
t-statistics	(-1.95)	(-1.30)	(-7.26)	(-5.68)

Table 10: Real consequences of SHBs on firm performance

This table represents the real consequences of salary history bans on firm performance after the bans took effect. *Labor productivity* is the ratio of sales to the number of employees. *ROS* is the return on sales and *Return* refers to the fiscal year buy-and-hold return. Standard errors are clustered by cohort-state. Appendix A provides definitions of the variables. The numbers in parentheses are t-statistics, with *, **, and *** indicating statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable	*Labor productivity*	*ROS*	*Return*
	(1)	(2)	(3)
Treat×Post	-0.0798**	-0.9754*	-0.0453*
	(-2.20)	(-1.85)	(-1.88)
Size	-0.0001	0.2908***	-0.0162***
	(-0.02)	(7.32)	(-10.37)
MTB	-0.0058***	-0.0280***	-0.0005*
	(-3.58)	(-3.52)	(-1.83)
ROE	0.0419***	0.6616***	0.0189***
	(10.77)	(6.56)	(4.91)
Lev	0.0046	-0.6055*	-0.0270**
	(0.10)	(-1.80)	(-2.03)
Quick	-0.0345***	-0.9160***	-0.0086***
	(-5.34)	(-11.52)	(-9.17)
Labor_Intensity	-0.0395***	0.0689***	0.0011*
	(-10.28)	(8.55)	(1.87)
Std_CFO	0.0005***	-0.0007***	0.0000***
	(9.07)	(-6.17)	(10.72)
Std_Nethire	-0.0030	-0.7092***	-0.0686***
	(-0.18)	(-4.02)	(-5.45)
Institutional_Owenership	0.1424***	1.1708***	0.0663***
	(5.13)	(7.28)	(7.46)
Union_Coverage	-0.5976***	2.4355***	0.0984***
	(-5.79)	(5.91)	(2.71)
Constant	0.7102***	-1.9314***	0.1903***
	(27.85)	(-7.56)	(19.66)
Cohort×State fixed effects	Yes	Yes	Yes
Cohort×Year fixed effects	Yes	Yes	Yes
No. of obs.	36,819	36,267	36,827
Adj. R^2	0.2016	0.1325	0.0999