

Outsourcing and Wages: Evidence from a Policy Reform in Mexico*

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Abstract

This paper examines a reform that bans labor outsourcing in Mexico and its effect on the wages of formal workers. Using longitudinal administrative data from social security records covering Mexico's formal labor market and an event-study framework, we document the evolution of workers' wages before and after the subcontracting reform. Our results show that after the passage of the outsourcing regulation, wages of formal workers affected by the reform rise by approximately 2-6%. Furthermore, the effect on women is more considerable in comparison to men. On the contrary, we do not find significant differences across age groups, except for very young workers, for whom we observe a smaller increase. Regarding firm heterogeneities, we discover that, at least in the initial months following the implementation of the outsourcing regulation, workers in the trade industry and those employed by firms with more than a thousand employees (large enterprises) had more significant salary increases. Finally, we also find geographical heterogeneity, in which certain locations experience greater salary impacts than others. These findings provide new insights into the impacts of changing labor outsourcing regulations on the wages of formal workers and contribute to the ongoing debate on the effects of outsourcing on the labor market.

JEL Classification: J31, J38, J46, J81, K31.

Keywords: Outsourcing, Formal Workers, Labor Market, Wages.

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