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Guru Sethupathy

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Abstract

This paper investigates the wage and employment effects of offshoring. I use firm-level data and two events in Mexico as a natural experiment to identify the effects of a fall in the marginal cost of offshoring to Mexico. I find that domestic wages actually rise at U.S. firms likely to take advantage of this new offshoring opportunity. At the same time, domestic wages fall at U.S. firms unlikely to take advantage of this opportunity. Furthermore, I find no evidence of greater domestic job loss at the former compared to the latter firms. These findings are consistent with productivity effects from offshoring. To explain the mechanism, I develop a theoretical framework that combines heterogeneous firms with imperfect labor markets and rent-sharing. Firms likely to take advantage of new offshoring opportunities increase their productivity and profitability at the expense of their competitors. Through rent-sharing, this channel leads to higher domestic wages at the former firms relative to the latter. Further, there is no empirical evidence of greater domestic job loss at the firms likely to expand their offshoring compared to their competitors that are unlikely to increase their offshoring.

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