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The Unintended Distributional Consequences of the 2012 Rise in The Mexican Minimum Wage

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ABSTRACT

In this paper we use a regional minimum wage increase in Mexico as a natural experiment to analyse the effect of minimum wage legislation on the distribution of real earnings. We evaluate the effect of the policy change on different points of the earnings distribution by implementing unconditional quantile regressions. We find evidence of positive and significant effects at the bottom of the earnings distribution, which suggests a small improvement in wages for the targeted lowest income workers. Interestingly, the model also shows the existence of income-increasing \emph{spillover} effects on formal and informal labour markets, which widens the dispersion of wages.

KEYWORDS Minimum Wage; Earnings Distribution; Spillover Effects

JEL J38, J32, J23